Treasury Board and Finance

Annual Report
2016-2017

Alberta
Government

Note to Readers:
Copies of the annual report are available on the Alberta Treasury Board and Finance website
www.finance.alberta.ca

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Treasury Board and Finance

Annual Report 2016–2017

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Preface

The Public Accounts of Alberta are prepared in accordance with the *Financial Administration Act* and the *Fiscal Planning and Transparency Act*. The Public Accounts consist of the annual report of the Government of Alberta and the annual reports of each of the 21 ministries.

The annual report of the Government of Alberta contains minister's accountability statements, the consolidated financial statements of the province and *Measuring Up* report, which compares actual performance results to desired results set out in the government's strategic plan.

On September 6, 2016, the government announced a new structure for the Public Agency Secretariat. The 2016-17 ministry annual reports and financial statements have been prepared based on this structure.

The Ministry of Treasury Board and Finance now includes the Public Agency Secretariat.

This annual report of the Ministry of Treasury Board and Finance contains the minister's accountability statement, the audited consolidated financial statements of the ministry and a comparison of actual performance results to desired results set out in the ministry business plan. This ministry annual report also includes:

- **the financial statements of entities making up the ministry including the Department of Treasury Board and Finance, regulated funds, provincial agencies and Crown-controlled corporations for which the minister is responsible;**
- **other financial information as required by the *Financial Administration Act* and *Fiscal Planning and Transparency Act*, either as separate reports or as a part of the financial statements, to the extent that the ministry has anything to report; and**
- **financial information relating to trust funds.**

Minister's Accountability Statement

The ministry's annual report for the year ended March 31, 2017, was prepared under my direction in accordance with the *Fiscal Planning and Transparency Act* and the government's accounting policies. All of the government's policy decisions as at June 23, 2017 with material economic or fiscal implications of which I am aware have been considered in the preparation of this report.

[Original signed by]

Joe Ceci
President of Treasury Board, Minister of Finance

Message from the Minister

Alberta continued to face significant fiscal and economic challenges in 2016-17 due to the deep and prolonged slump in global energy prices. The resulting economic downturn had far-reaching effects across several sectors that Alberta families and businesses are still feeling and government experienced a dramatic drop in revenue.

These challenges were compounded by the costliest natural disaster in the history of Canada. The Wood Buffalo wildfire threatened not only the economic well-being of families and the province, but the lives and homes of thousands of Wood Buffalo residents. The impact of the wildfire cannot be overstated. The temporary disruption to the province's most important oil producing area decreased Alberta's real GDP by 0.6 per cent and reduced government revenue by an estimated $500 million. The scale was so significant that it took 1.7 per cent off Canada's GDP. For many Albertans, the personal impact was incalculable.

But Albertans are resilient. We face our challenges head on, roll up our sleeves and get to work. Wood Buffalo is rebuilding and the economy, so dramatically shocked by global low oil prices, is showing clear signs of recovery. *Budget 2016 - The Alberta Jobs* Plan is doing what our government set out to do. *The Alberta Jobs Plan* set out to promote economic diversification and job creation and support families in times of hardship. Government worked diligently in 2016-17 to deliver on these commitments.

Under the Climate Leadership Plan, our government implemented an economy-wide price on carbon as a cost-effective way to reduce greenhouse gas emissions causing climate change. The carbon levy is a key tool to reduce Alberta's carbon footprint and encourage a greener economy. Our Climate Leadership Plan was instrumental in securing federal approval of two key pipeline projects to get Alberta oil to markets.

To help low- and middle-income families adjust to the levy, 60 per cent of households began receiving carbon rebates this past January. We cut the small business tax rate by one-third to two per cent effective January 1, saving small business owners an estimated $185 million this year. I was also pleased to deliver on our government's commitment to support small Alberta brewers to invest and grow through the Alberta Small Brewers Development Program. Entrepreneurs have a tremendous impact on Alberta's economic future, and we will continue to support these efforts as we build a more diversified economy.

Our government made changes to provincial legislation to modernize Alberta's credit union sector. We expanded the scope of services credit unions can offer to Albertans to increase options for consumers while improving governance, transparency, and accountability to the public. In addition, we furthered our work with our federal and provincial counterparts to enhance the Canada Pension Plan. These are practical changes, put into place gradually to ensure a secure and dignified retirement for Albertans.

The Alberta government's review of public agencies, boards and commissions continued in 2016-17, with the dissolution or amalgamation of 26 agencies. I also introduced a compensation framework that reins in pay for the highest-paid chief executive officers or their equivalents. These changes will apply to 23 designated agencies, capping executive severance payments, eliminating bonuses and doing away with perks such as golf club memberships and housing allowances.

As cost saving measures, our government maintained a freeze on salaries for ministers and their staff, as well as executives and managers in the public service. Our government also delivered on our commitment to find in-year savings in 2016-17.

We have chosen to take a long-term view to strengthen the Alberta Public Service to ensure Albertans receive high-quality programs and services. This included developing the Alberta Public Service People Strategy to ensure we have engaged and skilled employees in an inclusive workforce that reflects the province's diversity and strengths.

Going forward, we are sticking to our plan of creating good jobs, diversifying our economy and making life better for Albertans. Economic recovery will take time, but our commitment to stable public services and returning the province to economic growth is unwavering. The recovery we are now seeing shows that our plan is working.

[Original signed by]

Joe Ceci
President of Treasury Board, Minister of Finance

Management's Responsibility for Reporting

The Ministry of Treasury Board and Finance includes:

- Department of Treasury Board and Finance
- Alberta Cancer Prevention Legacy Fund
- Alberta Heritage Foundation for Medical Research Endowment Fund
- Alberta Heritage Savings Trust Fund
- Alberta Heritage Scholarship Fund
- Alberta Heritage Foundation for Science and Engineering Research Endowment Fund
- Alberta Risk Management Fund
- Provincial Judges and Masters in Chambers Reserve Fund
- Supplementary Retirement Plan Reserve Fund
- Alberta Capital Finance Authority
- Alberta Insurance Council
- Alberta Gaming and Liquor Commission
- Alberta Local Authorities Pension Plan Corp.
- Alberta Lottery Fund
- Alberta Investment Management Corporation
- Alberta Pensions Services Corporation
- Alberta Securities Commission
- ATB Financial and its subsidiaries
- Credit Union Deposit Guarantee Corporation
- N.A. Properties (1994) Ltd.
- Gainers Inc.

The executives of the individual entities (listed above) within the ministry have the primary responsibility and accountability for their respective entities. Collectively, the executives ensure the ministry complies with all relevant legislation, regulations and policies.

Ministry business plans, annual reports, performance results and the supporting management information are integral to the government's fiscal and strategic plan, annual report, quarterly reports and other financial and performance reporting.

Responsibility for the integrity and objectivity of the consolidated financial statements and performance results for the ministry rests with the President of Treasury Board, Minister of Finance. Under the direction of the minister, I oversee the preparation of the ministry's annual report, including consolidated financial statements and performance results. The consolidated financial statements and the performance results, of necessity, include amounts that are based on estimates and judgments. The consolidated financial statements are prepared in accordance with Canadian public sector accounting standards.

The performance measures are prepared in accordance with the following criteria:

- Reliability – Information used in applying performance measure methodologies agrees with the underlying source data for the current and prior years' results.
- Understandability – the performance measure methodologies and results are presented clearly.
- Comparability – the methodologies for performance measure preparation are applied consistently for the current and prior years' results.
- Completeness – goals, performance measures and related targets match those included in the ministry's *Budget 2016*.

As Deputy Minister, in addition to program responsibilities, I am responsible for the ministry's financial administration and reporting functions. The ministry maintains systems of financial management and internal control which give consideration to costs, benefits and risks that are designed to:

- provide reasonable assurance that transactions are properly authorized, executed in accordance with prescribed legislation and regulations, and properly recorded so as to maintain accountability of public money;
- provide information to manage and report on performance;
- safeguard the assets and properties of the province under ministry administration;
- provide Executive Council and the President of Treasury Board, Minister of Finance the information needed to fulfill their responsibilities; and
- facilitate preparation of ministry business plans and annual reports required under the *Fiscal Planning and Transparency Act*.

In fulfilling my responsibilities for the ministry, I have relied, as necessary, on the executives of the individual entities within the ministry.

[Original signed by]

Lorna Rosen, CPA, CMA, MBA

Deputy Minister of Treasury Board and Finance

June 6, 2017

Results Analysis

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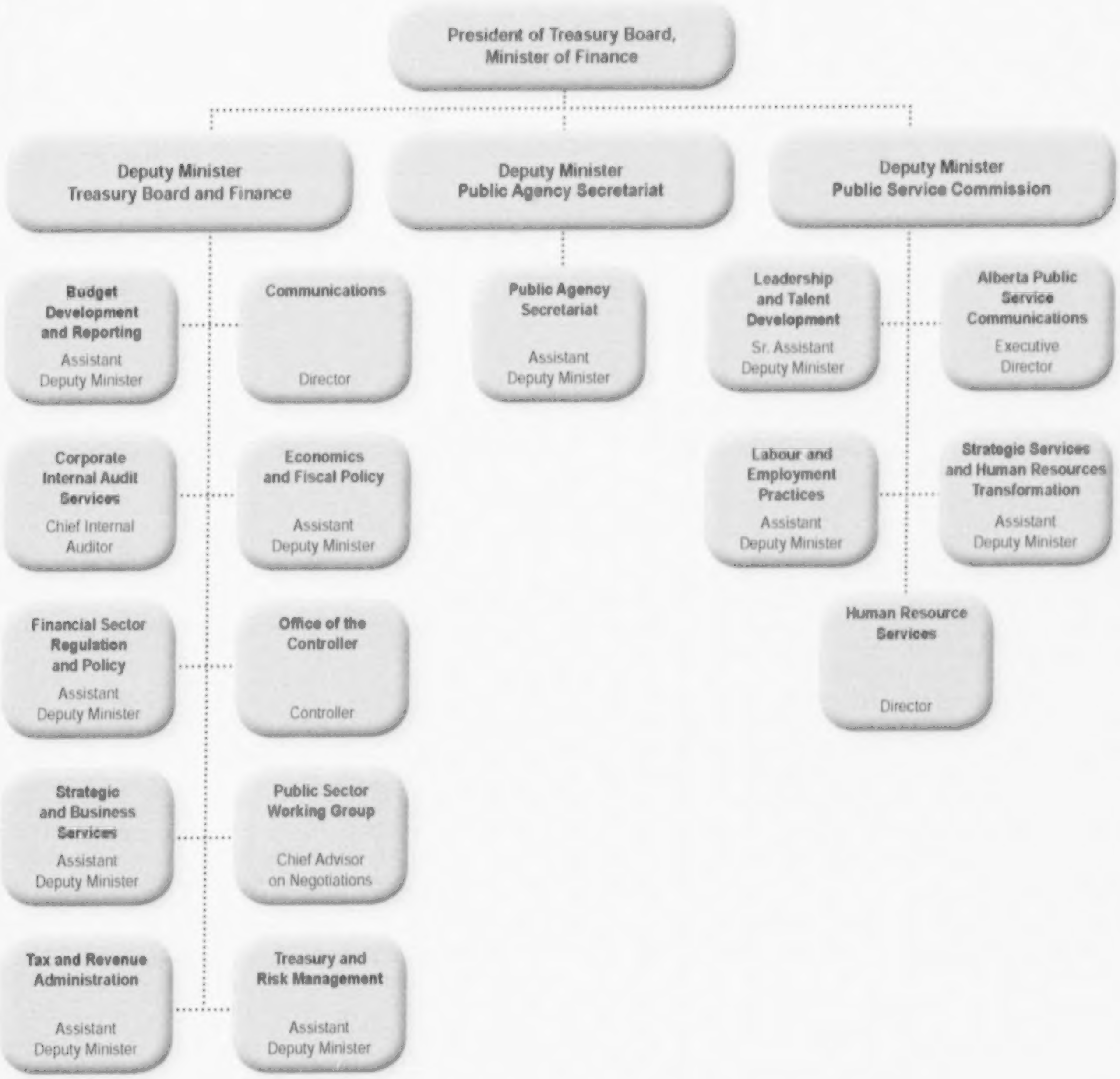
Ministry Overview

Organizational Chart


President of Treasury Board, Minister of Finance
Deputy Minister Treasury Board and Finance
Deputy Minister Public Agency Secretariat
Deputy Minister Public Service Commission
Budget Development and Reporting
Assistant Deputy Minister
Communications
Director
Corporate Internal Audit Services
Chief Internal Auditor
Economics and Fiscal Policy
Assistant Deputy Minister
Financial Sector Regulation and Policy
Assistant Deputy Minister
Office of the Controller
Controller
Strategic and Business Services
Assistant Deputy Minister
Public Sector Working Group
Chief Advisor on Negotiations
Tax and Revenue Administration
Assistant Deputy Minister
Treasury and Risk Management
Assistant Deputy Minister
Public Agency Secretariat
Assistant Deputy Minister
Leadership and Talent Development
Sr. Assistant Deputy Minister
Alberta Public Service Communications
Executive Director
Labour and Employment Practices
Assistant Deputy Minister
Strategic Services and Human Resources Transformation
Assistant Deputy Minister
Human Resource Services
Director

Operational Overview

Treasury Board and Finance:

Budget Development and Reporting

Budget Development and Reporting provides timely, relevant and accurate budget analysis, advice and recommendations to decision-makers (minister, Treasury Board Committee, Cabinet, Executive Council and other bodies). The division provides guidance to ministries on budgets, business and strategic planning, enterprise risk management as well as performance measurement and reporting. It is accountable for the government's budgeting (annual budget and quarterly updates) and performance reporting.

Communications

Communications advises and supports the President of Treasury Board, Minister of Finance, as well as the ministry as a whole, by providing clear, accurate and timely information to the public about key initiatives, programs and services. Communications also works closely with the Public Affairs Bureau and communications directors and their teams in other ministries across government. Communications provides consulting services in issues management, strategic planning, media relations, writing, publishing, social media and website content.

Corporate Internal Audit Services

Corporate Internal Audit Services performs internal audits across government. The division helps ministries achieve their goals by bringing a systematic, disciplined approach to evaluating and recommending improvements to risk management, control and governance processes.

Economics and Fiscal Policy

Economics and Fiscal Policy is primarily responsible for analysis and advice to the government on fiscal and economic issues, including: tax policy analysis and legislation, economic and demographic analysis, forecasting the economy, population, tax revenues and federal transfers for the Budget and quarterly fiscal updates, preparing Budget material (e.g. tax and economic outlook chapters, quarterly economic statement), federal-provincial fiscal relations, including major federal-provincial transfers, cross-ministry support on federal, provincial and municipal fiscal issues, cross-ministry statistical services and the provincial focal point for Statistics Canada and Economic impact and fiscal analysis of policy and program initiatives.

Financial Sector Regulation and Policy

Financial Sector Regulation and Policy has two primary functions: providing policy support and analysis for insurance, private sector and public sector pension plans, and the Canada Pension Plan; and regulating and supervising loan and trust corporations, financial institutions, insurance companies and registered private sector pension plans.

Office of the Controller

The Office of the Controller is responsible for government accounting standards and financial reporting, financial management and control policies, risk management (i.e., financial and audit risk) and financial business process management. The division is a leader in sponsoring, supporting and facilitating initiatives with outcomes focused on effectiveness, efficiency, best practice and continual improvement by the government financial community.

Public Sector Working Group

The Public Sector Working Group supports government's interests, as employer and funder, with respect to public-sector labour relations. The group prepares mandates, supports cross-sectorial coordination in bargaining and otherwise strengthens the government's overall strategic capacity with respect to negotiations, compensation research, and other strategic labour relations matters.

Strategic and Business Services

Strategic and Business Services supports the ministry's operations by leading and overseeing the ministry's business planning, annual reporting and enterprise risk management activities, delivering strategic policy leadership and support, offering financial advisory, planning and accounting services, managing information and records, including the administration of processes to meet the requirements of the *Freedom of Information and Protection of Privacy Act*, information technology application maintenance, development and support, and managing facility operations.

Additionally, the division manages Air Charter Services, the department's emergency management program and supports the government's relationship with the Alberta Gaming and Liquor Commission and Horse Racing Alberta. Human Resource Services joined the division in 2016-17 and is responsible for day-to-day human resource services, promoting strategic human resource planning and alignment, supporting the attraction and engagement of high-calibre staff, and building employee capacity to achieve ministry business plan goals.

Tax and Revenue Administration

Tax and Revenue Administration administers tax, revenue and other programs under 10 acts, including the *Alberta Corporate Tax Act*, the *Fuel Tax Act*, the *Tobacco Tax Act*, the *Tourism Levy Act* and the *Climate Leadership Act*. The focus of the division's work is to ensure a fair, efficient and effective provincial tax and revenue administration system. The division also contributes to the development of Alberta tax and revenue policy.

Treasury and Risk Management

Treasury and Risk Management manages the province's cash resources and banking arrangements, and negotiates debt financing for the government and provincial corporations. In addition, the division assists in the identification, measurement, control and financing of the risks of accidental loss to government. It provides investment policy advice as well as portfolio planning and evaluation for investments in the Heritage Fund, the General Revenue Fund and other government endowment funds. The division also provides policy analysis and advice on the regulation of capital markets. It is responsible for promoting a level and competitive environment for financial institutions in Alberta and minimizing the risk of loss to deposit holders and consumers of trust products.

Public Agency Secretariat:

The Public Agency Secretariat (PAS) collaborates with departments and public agencies to support the adoption of leading governance practices, lead a coordinated approach for agency reporting, accountability and evaluation, develop and implement board member and executive compensation frameworks and support open and transparent board recruitment processes. The current configuration of PAS was established as part of Treasury Board and Finance (TBF) in 2016-17 to provide a more coordinated approach to agency governance initiatives. This reorganization brought together functions that had previously resided in the Public Service Commission, Service Alberta and Executive Council.

Public Service Commission:

On February 15, 2017, the *Miscellaneous Statutes Amendment Act* received Royal Assent and the *Public Service Act* was amended to change the name of Corporate Human Resources to the Public Service Commission (PSC) to reflect a focus on policy development as well as Alberta Public Service (APS) wide programs, services and procedures that have a positive impact on the APS.

Labour and Employment Practices

Labour and Employment Practices is responsible for providing expert consulting and training to ministries in support of employee health, safety, and wellness practices, talent acquisition, job evaluation, employee classification and compensation. Additional key responsibilities include: delivering employee benefits, pensions and programs; leading human resource policy development and managing directives; and conducting collective bargaining and labour relations between the Alberta Union of Provincial Employees and the Government of Alberta.

Leadership and Talent Development

Leadership and Talent Development develops and implements talent management and leadership development initiatives to ensure employees have the skills, training, and resources they need to succeed in the public service and effectively serve Albertans. Additional key responsibilities include: leading the implementation of *ENGAGE: Our Alberta Public Service People Strategy*; providing learning opportunities and professional development; and attracting and recruiting Executive Managers and Senior Officials.

Strategic Services and Human Resources Transformation

Strategic Services and Human Resources Transformation co-creates a modern, effective, and responsive APS human resource system by supporting APS-wide policy development, strategy development and data analysis. The division builds APS policy capacity through the Policy Essentials program, policy internship program, and biennial conference. The division also provides corporate services to the PSC, including finance, strategic and business planning, accommodations, legislative planning, information management and technology and intergovernmental services.

Alberta Public Service Communications

APS Communications is responsible for providing strategic communications expertise to the PSC, leading APS-wide internal communications initiatives, and promoting the public service as an employer. The division supports the Deputy Minister of the PSC, the PSC leadership team, the Deputy Minister of Executive Council, the President of Treasury Board, Minister of Finance, and works closely with the Public Affairs Bureau, Communications Directors and internal communications teams in all departments to ensure communications are coordinated, effective and aligned.

Human Resource Services

Human Resource Services provides business partnership services to PSC clients to support and ensure ongoing employee capacity with an engaged workforce to deliver upon their mandate. Responsibilities include promoting strategic human resource planning in alignment with business goals and objectives; supporting the attraction and engagement of high-caliber employees; and building employee capacity to achieve business plan goals.

Key Highlights in the Past Year

In 2016-17, Treasury Board and Finance (TBF) actively responded to government's strategic plan and key priorities. Over the past year, the government has laid the foundation for numerous initiatives that promote economic recovery and diversification. TBF assisted the government in working toward the objectives outlined in *Budget 2016 - The Alberta Jobs Plan*. Some of the objectives and key highlights were:

Manage public finances in a prudent and effective manner

Protecting vital public services requires a strong fiscal and financial foundation. The department plays a critical role in providing advice, tools and resources to protect this foundation. As such, the ministry accomplished the following:

- Led the development of *Budget 2017: Working to Make Life Better* by working collaboratively with ministries across government. The budget reflects the efforts of ministries to provide supports to Albertans during a difficult economic time. This is balanced against a fiscally prudent approach, which builds the foundation for a return to balance with operating expense growth kept below population and inflation. Further enhancing transparency and openness, the Budget 2017 fiscal plan tables and estimates were released in open data format, for the first time. Highlighting the overall quality of our budget documents, the CD Howe Institute awarded Alberta an A+ rating for the quality of its financial information in its annual fiscal accountability study. New Brunswick was the only other province that received an A+ rating.
- In the development of *Budget 2017*, the President of Treasury Board, Minister of Finance held roundtable discussions with representatives from many sectors, including health care, labour and energy. He also met with the chief economists of major Canadian banks and financial institutes to discuss Alberta's economic recovery and oil price forecasts. More than 80,000 Albertans joined the Minister and Premier in telephone town hall meetings which took place over two evenings. More than 4,300 online submissions, 125 emails and 50 written reports were received as part of the consultation.
- Provided analytical support for negotiations on an agreement reached by Alberta and the federal government in March 2017 regarding the federal health transfers, valued at an estimated $1.3 billion over 10 years, for home care and mental health.
- Maintained an Alberta Unclaimed Property Repository of approximately 205,000 unclaimed items (as of March 31, 2017) with an estimated value of $70.4 million. For the fiscal year 2016-17, 636 cheques were issued with a total value of $948,064, reuniting owners with their property.
- Maintained a cost-effective borrowing program. This approach to borrowing included an Australian Dollar program and a fully registered US Securities and Exchange Commission (SEC) program to allow more investors to participate in Alberta's US dollar debt issues. The inaugural bond issues in both markets were launched following the establishment of the respective programs. Furthermore, the department also issued its inaugural bond in the Sterling market under the previously established Global Medium Term Note program.
- Researched and prepared bargaining mandates for all major bargaining tables in 2017 (Health Care, Education, Post-Secondary Education and the Alberta Public Service). All bargaining mandates were approved by government and issued to affected public sector employers in advance of the Spring 2017 bargaining round.

Cost savings

As the economy began to recover, the government continued its effort to manage its operational expenses with the long-term goal of bringing the budget into balance. During the year, the ministry accomplished the following:

- Worked with all ministries to identify in-year savings from a wide variety of initiatives. These savings include continuing salary freezes for managers in the Alberta Public Service, government agencies and political staff.
- The government's operating expense grew by 3.4 per cent (excluding the Climate Leadership Plan) in 2016-17 which was due to committed spending on health, education and social services. This operating expense growth was lower than the previous four year average of 4.2 per cent.
- Supported the Agencies, Boards and Commissions (ABC) Review and announced in *Budget 2016* that 26 agencies, boards and commissions would be amalgamated or dissolved, saving $33 million over three years. These changes were implemented in 2016-17 through the *Agencies, Boards and Commissions Review Statutes Amendment Act*, which was passed in Fall 2016.

Implement Climate Leadership Plan

The Climate Leadership Plan promotes a cleaner and healthier environment and facilitates research and investment opportunities in low carbon technologies. TBF actively supported this plan and completed the following:

- Provided analysis and recommendations for government's introduction of the Climate Leadership Plan. This included playing the lead role in the development of the *Climate Leadership Act* and regulations which implemented the carbon levy. Other Climate Leadership measures implemented include the Alberta Climate Leadership Adjustment Rebate and a reduction to the small business corporate income tax rate (lowered from three per cent to two per cent), effective January 1, 2017.
- Developed a new chapter in *Budget 2017*, the Climate Leadership Plan, for increasing reporting transparency on the Climate Leadership Plan revenue and expenses, as well as expected emissions and economic impacts.

Ensure effective tax administration

The effective collection of tax dollars supports the delivery of vital public services. With respect to tax administration, TBF achieved the following in the past year:

- Recorded $7 billion from several tax and revenue programs administered by TBF, including corporate income tax, fuel tax, tobacco tax, insurance tax, carbon levy, tourism levy and special broker tax (excluding personal income tax). Processed more than 344,000 corporate and commodity returns and approximately 8,700 benefit claims.
- Recovered more than $41.9 million through corporate and commodity tax audits.
- Worked to design the carbon levy policies and administrative system to minimize administrative cost and industry compliance efforts, where possible.
- Implemented all measures announced in the *Budget 2016 Tax Plan*, including the carbon levy and Alberta Climate Leadership Plan - Consumer Rebates, small business tax rate reduction, and introduced the Alberta Investor Tax Credit (AITC) and Capital Investment Tax Credit (CITC).

- Published eight educational videos to support stakeholders' awareness and understanding of their obligations in tax and revenue programs. These videos are accessible on the Taxes and Levies playlist on the Your Alberta YouTube channel.
- Launched the Tax and Revenue Administration (TRA) Subscription Service. This subscription service provides taxpayers with email notifications about new or updated publications that communicate specific tax and revenue program changes. This new service is essential for the department's administration of the carbon levy and other programs. It helps to keep stakeholders informed about changes to specific tax and revenue programs on a timely basis. As of March 31, 2017, there were 1,191 subscribers to the Carbon Levy Administration email subscription service.
- Minimized carbon levy compliance burdens by effectively administering electronic filing for the program using the Tax and Revenue Administration Client Self-Service (TRACS) system. TRACS is a secure online system that allows taxpayers to file outside of regular business hours and save mailing costs.

Foster economic growth and diversification

The public sector plays an important role in supporting economic growth and diversification when the economy is in distress. In 2016-17, the ministry supported the government with the following:

- In partnership with Alberta Agriculture and Forestry, developed and implemented the successful Alberta Small Brewer Development Program to support and grow Alberta's small beer manufacturers. The program supports Alberta's small brewers, allowing them the flexibility to invest in their businesses, enabling them to increase production capacity, launch new products, develop new markets, make important capital improvements and create jobs.
- Continued to promote Alberta's entrepreneurship and finance small- and medium-sized enterprises (SMEs) through Alberta Treasury Branches (ATB Financial). In 2016-17, ATB Financial made over 12,000 new loans to SMEs with a value of approximately $3 billion.
- Continued to support investments by the Alberta Heritage Savings Trust Fund in the Alberta Growth Mandate, a directive that invests up to three per cent of the Heritage Fund - or $540 million - in Alberta companies with strong growth potential. As of March 31, 2017 the mandate has resulted in 17 investments totalling $195.7 million.
- The Minister met with leading private sector economists in December 2016, including from the major Canadian banks. The meeting provided valuable insights on Alberta's economic outlook leading into *Budget 2017*.
- Provided analysis and advice on economic development proposals, including the Petroleum Diversification Program and Climate Leadership Plan initiatives.
- Provided Albertans with weekly and monthly updates on the economy during the oil price shock and downturn through regular online publications, including the *Weekly Economic Review*, *Alberta Indicators at a Glance*, *Monthly Economic Trends* and *Labour Market Notes*.

Ensure transparent, accountable and efficient government

The Government of Alberta is accountable to Albertans. Maintaining financial integrity and information transparency enhances public confidence in the government. The ministry played a leading role within government and fulfilled the following:

- Led work with other departments and ABCs to implement initiatives that support enhanced consistency, accountability and transparency in the governance of public agencies, including:

- Executive Compensation – the *Reform of Agencies, Boards and Commissions Compensation Act* was passed in Spring 2016. This Act enables government to develop regulations setting compensation frameworks for public agencies. The first framework was announced in February 2017, establishing a base salary model that resets executive base compensation and cut perks and bonuses at 23 of Alberta's ABCs where CEOs earn a base salary of more than $200,000 annually.
- Salary Freeze – Government announced a two-year salary freeze for non-bargaining unit staff at ABCs.
- Salary Disclosure – Government expanded the sunshine list to include approximately 150 ABCs that are now required to publicly disclose compensation information for employees who earn more than $125,000 a year in total compensation as well as all compensation paid to any board appointees. Disclosure takes place annually, beginning in June 2016.
- Board Recruitment – Government focused on attracting qualified candidates to ABCs who have diverse skill sets and reflect the diversity of Albertans. To support ABC board recruitment, the government launched a new online recruitment process in Fall 2016.

Support the Alberta Public Service

Government is committed to strengthening the APS to ensure it is inclusive, innovative, and that it delivers high-quality programs and services to Albertans. Engaged employees are the foundation of a successful public service. Over the past year, the ministry:

- ► Developed and launched *ENGAGE: Our APS People Strategy*, the government-wide employee engagement strategy, to ensure a positive and productive work environment that enhances the engagement of public service employees. Engaged employees are crucial to the success of the APS in delivering high-quality and responsive services to Albertans.

- ► Developed an approach to ensure the APS is a diverse and inclusive workforce that reflects the province's diversity and strengths. This will demonstrate that the APS is representative of the broader population thus strengthening the ability of government to understand, respond, and effectively serve an increasingly diverse population.

Regional Municipality of Wood Buffalo wildfire

Like all ministries in the government, TBF had an important role in responding to the Regional Municipality of Wood Buffalo wildfire in Spring 2016. The following highlights our efforts:

- ► Provided advice and support to government during the Regional Municipality of Wood Buffalo wildfire to ensure that evacuees received timely financial and insurance assistance. In the first three weeks following the fire, insurers paid in excess of $60 million to those displaced by the fire to help with additional living expenses. As of March 31, 2017, approximately 80 per cent of claims have been closed, with more than $1.5 billion paid by insurers to those who filed claims.

- ► Provided employee-related support to departments during the Wood Buffalo wildfire in areas such as the Employee and Family Assistance Program and Occupational Health and Safety Program.

- ► Prepared an analysis of the economic and fiscal impact of the Wood Buffalo wildfire for the First Quarter Fiscal Update and Economic Statement.

Ministry Financial Highlights

Actual to actual comparison of year-over-year results

Revenue
(millions of dollars)

2016-17	2015-16
Actual	Actual
$25,626	$25,417

In 2016-17, the government saw a decline in overall tax revenue due to the challenging economic landscape, predominantly due to declining oil prices, corporate revenues, personal incomes and tax planning strategies undertaken by some corporations to minimize corporate exposure. High investment income helped mitigate the decrease in overall revenues, helping government to deliver on its commitments from *Budget 2016*.

Revenue for the ministry is $209 million, or about 1 per cent, higher than in 2015-16.

- Personal income tax revenue was $594 million lower than the previous year due to the impact of the sustained economic downturn.
- Corporate income tax revenue along with related interest and penalties was $426 million lower than last year, due to the sustained economic downturn.
- Other tax revenue was higher than the previous year by $345 million. The department collected $250 million carbon levy which will ultimately be expensed through the Climate Leadership Plan. Insurance taxes were higher by $151 million due to the increased rates assessed on premiums receivable by insurers. Fuel tax decreased by $26 million, tobacco tax decreased by $27 million and the tourism levy decreased by $3 million, all due to the economic downturn.
- Overall, transfers from the Government of Canada decreased by $209 million, as a result of the one-time Fiscal Stabilization Program payment of $251 million received in 2015-16 and a $42-million increase in the Canada Social Transfer program.
- Net investment income was $1,136 million higher as market conditions were more favorable during this time.
- Net income from government business enterprises was $86 million lower. Net income from the Alberta Gaming and Liquor Commission (AGLC) decreased by $124 million, largely due to a decrease in all gaming revenues resulting from the extended economic downturn. Net income from ATB Financial was higher by $43 million, predominantly as the loan loss provision decreased from the previous year. Net income from the Credit Union Deposit Guarantee Corporation (CUDGC) decreased by $5 million, predominantly due to a decrease in assessment rates to credit unions.
- Premiums, fees and licences increased by $24 million. Revenue of the Alberta Securities Commission was $14 million higher, mainly due to the new fee rule implemented in December of 2016. Revenue from ATB Financial for the payment in lieu of taxes and deposit guarantee fee was $8 million higher. Other premium, fees and licences revenue was $2 million higher.

- Other revenue was up by $19 million. There was a $22-million increase in service revenue from Alberta Investment Management Corporation (AIMCo), mainly for investment services to the pension plans, and a $3-million increase in pension administration revenue from Alberta Pensions Services Corporation (APS) due to increased membership in the pension plans. Miscellaneous one time revenues were down $6 million from the previous year.

Expenses
(millions of dollars)

2016-17	2015-16
Actual	Actual
$2,143	$1,662

Additional pressures from the economic downturn and population growth, claims resulting from the wildfire in Wood Buffalo and the government's investment in the economic recovery of the province increased expenses in 2016-17. Financing options such as borrowing acted as a shock absorber for the economic downturn and protected key public services, resulting in a higher cost to service the debt. The government has taken a measured approach that balances prudent expense management with the need to protect funding for the services Albertans count on.

Ministry expenses are $481 million, or about 29 per cent, higher than in 2015-16.

- Investment, Treasury and Risk Management expenses were $37 million higher than last year. These expenses are mainly the result of the Regional Municipality of Wood Buffalo wildfire. This total includes a $21-million increase in the Alberta Risk Management Fund (ARMF) claims and a change in the actuarially determined liability reserves, a $10 million increase in the transfers from the Alberta Heritage Foundation for Medical Research Fund (AHMREF), a $2 million increase in transfers from the Alberta Heritage Scholarship Fund (AHSF), and a $1 million increase in transfer from the Cancer Prevention Legacy Fund. There was then a net increase of $3 million in all other expenses.
- Tax and Revenue Management is $14 million more than the previous year, predominantly due to an increase in corporate tax refund interest.
- As part of the Climate Leadership Plan, consumer rebates went into effect this year, resulting in $152 million in expenses. There is no prior year comparator.
- The pension recovery was $189 million lower than last year due to the impact of economic assumptions, including a decrease in discount rate updates used to determine the pension obligation.
- The provision for change in corporate income tax allowance adjustment was down $149 million from last year due to resolution of some large tax files.
- Debt servicing for general government is $231 million higher than the previous year due to increased debt levels.
- The remaining expenses increased $7 million over the previous year.

Actual to budget comparison

Revenue
(millions of dollars)

2016-17	2016-17
Actual	Budget
$25,626	$25,572

The ongoing economic slowdown meant that less money was spent by consumers on taxed products and personal and corporate income tax revenues were lower than anticipated. The ministry's revenue shortfall was offset by increased investment in the province and additional income from banking and securities.

Revenue for the ministry is $54 million higher, essentially on budget.

- Personal income tax revenue was $642 million less than budget as household income estimates were lower than estimated due to the sustained economic downturn.
- Corporate income tax revenue, along with related interest and penalties, was $556 million lower than budget, due to the sustained economic downturn.
- Other tax revenue was $373 million lower than budget. The two largest variances were a $125-million shortfall in fuel tax and a $186-million shortfall in tobacco tax. Consumption, for both, was less than anticipated as a result of the sustained economic downturn.
- Transfers from the Government of Canada were $5 million less than budget as there was a revision to Alberta's estimated population.
- Net investment income was $1,514 million higher than budget due to stronger than expected financial market performance.
- Net income from government business enterprises was $80 million higher than budget primarily due to increased income from ATB Financial of $124 million. This increase was partially offset by AGLC's $34-million lower-than-budgeted income and CUDGC's $10-million lower revenue, primarily due to a decrease in assessment rates to credit unions.
- Premiums, fees and licences were $49 million higher than budget. This was mainly attributed to $29 million more in total revenue from ATB Financial for the deposit guarantee fee and payment in lieu of taxes. Revenue from the Alberta Securities Commission was $18 million higher, mainly due to the new fee rule.
- Other revenue was $13 million lower than budget primarily due to lower-than-expected cost recoveries from AIMCo service revenue and APS pension administration revenue.

Expenses
(millions of dollars)

2016-17	2016-17
Actual	Budget
$2,143	$2,631

The ministry was able to continue to fund the services delivered by government while decreasing its expenses in 2016-17. Increased pension fund recovery, lower pension liabilities, and unanticipated corporate income tax reassessments affected the ministry's budgeted expense. Managing operating expenses responsibly while supporting vital public services for Albertans remains a core focus of the ministry.

Expenses for the ministry were $488 million, or about 19 per cent, lower than budget.

- Ministry Support Services were $3 million lower than budget, as funding was reallocated to other areas within the ministry.
- Investment, Treasury and Risk Management expenses were $7 million lower than budget as transfers from the endowment funds were less than anticipated and AIMCo's external investment fees were less than budgeted.
- Tax and Revenue Management expense is $19 million higher than budget as interest payments on corporate tax refunds were higher than budget as a result of the resolution of some significant tax files.
- Financial Sector Regulation and Policy expenses were $19 million under budget, mainly due to pension liability funding being less than projected pension benefit payments.
- Gaming expenses were $8 million more than budget. The related revenues from the slot terminals at the Racing Entertainment Centres (RECs) increased with the better-than-anticipated performance of the new facility in Balzac and the continued operation of Northlands in Edmonton, increasing the payment to Horse Racing Alberta as required under the current funding agreement.
- New for this year, the Climate Leadership Plan's consumer rebates, cost $57 million more than budget as a result of a timing difference in the recognition of rebates in the first three months of the fiscal year.
- The Scientific Research and Experimental Development Tax Credit was $15 million less than budget as a result of lower program utilization.
- Teachers' pre-1992 pension liability funding was $7 million less than budget as payments to pensioners were lower than projected cash flows.
- The pension recovery was $365 million higher than budget. The increased recovery was due to an improved net-asset-to-pension obligation ratio for the pension plans and improved cash flows for the teachers' pre-1992 pension obligation from those budgeted.
- The corporate income tax allowance adjustment was $157 million lower than expected due to a couple of large reassessments and the resulting adjustment to the associated allowance.
- Debt servicing costs were $22 million higher than budget for Alberta Capital Finance Authority (ACFA) as a result of increased floating interest rates. General government debt servicing was $15 million less than budget, mainly due to slightly lower interest rates.

- The Public Service Commission is $3 million less than budget as there was no long-term disability income continuance liability.
- All other expenses were $4 million less from other cost savings.

Discussion and Analysis of Results

Outcome One:
Strong and sustainable government finances

Planned key strategies to support this outcome included:

- Provide advice and recommendations on spending, cost-saving initiatives, operational efficiencies, and revenue initiatives to align with government priorities.
- Monitor the competitiveness, economic efficiency, fairness and revenue stability of Alberta's tax system and provide supporting recommendations.
- Advance electronic services for Alberta's tax and revenue programs.
- Invest up to three per cent of the Alberta Heritage Savings Trust Fund directly towards Alberta's growth.
- Lead the modernization of Alberta's gaming industry through investments in new technology and game offerings to sustain revenue for the Alberta Lottery Fund.
- Provide reliable economic, demographic and revenue forecasts, and government-wide support for the development of statistics and analysis.

What this means:

Long-term financial sustainability is crucial to Alberta's economic stability and prosperity. This means having sustained revenue streams through competitive, fair and effective revenue programs and advanced tax systems; cost-saving initiatives that limit the rate of growth in government expense to the combined rate of population growth plus inflation; and sound investment strategies that grow Alberta's finances.

Our responsibilities:

To support the achievement of this outcome, Treasury Board and Finance tracks financial performance; recommends effective cost-saving measures, revenue initiatives and investment strategies; provides reliable economic forecasts and advice to government and public; and manages financial risks.

Results and Contributions from 2016-17:

During 2016-17, TBF continued its efforts to support economic and fiscal development and played a leading role in managing government's financial systems, ensuring revenue initiatives, cost-saving measures and borrowing and investment strategies were well aligned with government's priorities.

Economic forecasts and analysis

As the principal economic and fiscal advisor to the government, the department contributed to critical government decisions in a rapidly changing and complex economic environment. Uncertainty became the major challenge for the department to make economic and demographic forecasts. In particular, the 2016 wildfire in Wood Buffalo was disruptive to business activities in one of Alberta's most important economic regions and increased the complexity of the department's work in forecasting and analyzing Alberta's economy. The department worked through uncertainties by leveraging its economic expertise and consulting with working groups in the provincial and local governments. In the past year, the department:

- Succeeded in providing high-quality, useful and reliable information, analyses and forecasts to assist the government in evaluating the economic impacts of the Wood Buffalo wildfire.
- Provided analysis, forecasts and advice to senior officials and Treasury Board Committee on a regular basis to support the development of *Budget 2016, Budget 2017* and quarterly fiscal updates.
- Published a variety of high-quality online economic publications to make timely information available for the general public. The publications include:
  - *Economic Review (Weekly)*
  - *Alberta Economy – Indicators at a Glance (Weekly)*
  - *Economic Trends (Monthly)*
  - *Labour Market Notes (Monthly)*
  - *Demographic Statistics (Quarterly)*
  - *Demographic Projections (Annually)*
- Developed the Alberta Activity Index which provides a timely indicator of economic activities and helps improve the in-year real Gross Domestic Product (GDP) forecast.
- Initiated the use of the Statistical Spatial Framework – a new methodology for using location and socio-economic data to support both social and economic analysis and government decision-making. This project aims to improve the existing statistical analysis landscape to meet a variety of needs across government.
- Published the results of Alberta Spatial Price Index Survey which gives Albertans a clearer picture of price differences across communities. The index can also be used for compensation and cost-of-living allowance adjustments in the private and public sectors. The survey was conducted in collaboration with Statistics Canada and the ministries of Economic Development and Trade, Transportation and Seniors and Housing, with the goal of developing a product that is well used in both the public and private sectors.

Advice on spending, cost-saving and revenue initiatives

A key responsibility of the department is to provide the government with advice and recommendations on spending, cost savings and revenue initiatives. Given current fiscal challenges, measures to restrain the growth of government operating expenses are critical as are actions to strengthen fiscal capacity through well considered revenue programs.

- TBF worked with all ministries to identify in-year savings from a wide variety of initiatives. These savings include continuing salary freezes for managers in the Alberta Public Service, government agencies and political staff.
- Additional savings will come from the work completed by the Public Agency Secretariat in establishing an executive compensation framework for designated executives in public agencies under the *Alberta Public Agencies Governance Act*. This framework, which will lead to savings of approximately $16 million per year, includes changes such as eliminating bonuses and market modifiers.
- The ministry provided analytical support for negotiations on federal health transfers. In March 2017, Alberta and the federal government reached an agreement which will provide an estimated $1.3 billion in new federal funding over 10 years for home care and mental health. Consistent with similar federal-provincial funding agreements with other provinces and territories, the funding will be on an equal per capita basis.
- TBF provided analysis and recommendations for government's introduction of the Climate Leadership Plan. This included the support on the development of the *Climate Leadership Act* and regulations which implemented the carbon levy, the Alberta Climate Leadership Adjustment Rebate and a reduction to the small business corporate income tax rate (lowered from three per cent to two per cent) effective January 1, 2017.

Debt and risk management

As a result of the significant decline in natural resource revenues and the government's commitment to maintaining services and not make drastic spending cuts, the government needed to finance key public services during the fiscal year. In support of the government's key priorities, policies and programs, the department prudently and efficiently managed the province's borrowing during 2016-17.

- The department is responsible for meeting Alberta's financing requirements for all of the government's fiscal and capital programs, as well as for the Provincial Corporations. The Province's borrowing program of $16.1 billion was successfully funded through the domestic and international debt markets.

Performance Indicator	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual
1.b Sustainable level of government debt (ratio of debt to Nominal Gross Domestic Product [GDP] for Alberta)	1.9%	2.9%	3.4%	6.1%	10.9%

Trend

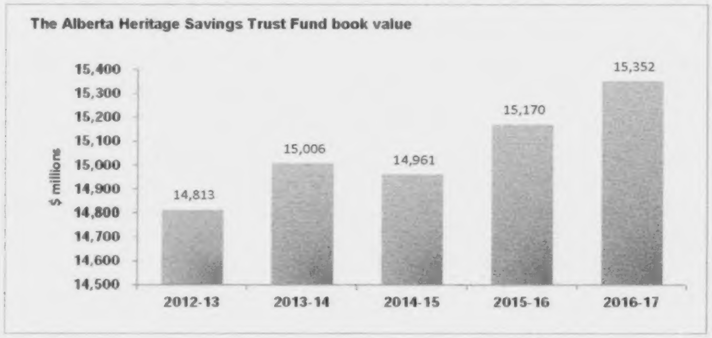
The ratio of debt to Nominal Gross Domestic Product for Alberta has increased by 4.8 percentage points from 2015-16. The growth in government borrowing is to support the Capital Plan, and beginning in 2016-17, to support government operations.

- TBF established borrowing platforms to access global markets for the borrowing programs to diversify sources of funding and to take advantage of lower borrowing costs in other markets. The new platforms include an Australian Dollar program and a fully registered US Securities and Exchange Commission (SEC) program to allow more investors to participate in Alberta's US dollar debt issues. The inaugural bond issues in both markets were launched following the establishment of the respective programs. The department also issued its inaugural bond in the Sterling market under the previously established Global Medium Term Note program.

Investments

Alberta invests in a number of savings vehicles, including the Alberta Heritage Savings Trust Fund, the Contingency Account and various endowment and other funds. The investment return provides an alternative source of income to the government.

- TBF continued to invest the Alberta Heritage Savings Trust Fund, under the management of the Alberta Investment Management Corporation (AIMCo) in a globally diversified portfolio consisting of public and private stocks and bonds and real assets such as commercial real estate and infrastructure investments, (i.e., airports, public utilities and toll roads). All realized income is transferred to general revenue on an annual basis except for a portion of income that is retained in the fund to protect against inflation and maintain the real value of the fund.



Performance Measure	2016-17 Target	2016-17 Actual
1.a The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5%[1]	5.9%	11.0%

Explanation of Variance

The results over the past five years have exceeded expectations primarily due to better than expected returns in the Fund's equity, real estate and infrastructure assets. These results are not expected to continue into the long-term.

Prior Year's Results

5.2% (2.1% below target)	12.7% (5.4% above target)	11.7% (4.6% above target)	10.5% (3.5% above target)
2012-13	2013-14	2014-15	2015-16

Trend

The performance of the fund has been higher than expected for a number of years. It is anticipated that returns would normalize over time.

The 2012-13 five-year return is the outlier as it still includes the -18.1% return from 2008-09, which was during the financial crisis.

Note 1: This measure is used to determine whether the long-term investment policy is achieving the returns expected based on long-term capital market assumptions. It is measured by comparing the return on the policy benchmark to the real return target. The total long term expected return on the Fund would also include the additional annualized return added through active management in measure 1.b.

- During the year, AIMCo deployed an additional $134.6 million in investments, which brought the total invested under the Alberta Growth Mandate to $195.7 million, up from the $52.4 million invested at March 31, 2016. The goals of the Alberta Growth Mandate investments are to create jobs, develop subject matter expertise within Alberta, and stimulate investments in new infrastructure, economic diversification and Alberta exports.

Performance Measure	2016-17 Target	2016-17 Actual
1.b AIMCo's investment returns in excess of the benchmark through active management, for the endowment and pension funds, annualized over a five-year period	1.0%	0.9%

Explanation of Variance

In 2016-17 AIMCo added 0.6% of value. This is slightly below the target and brought the five-year value-add down to 0.9% from the previous year's five-year value-add of 1.3%. 2015-16 was an exceptionally strong year for value added, and some fluctuation is expected from year to year.

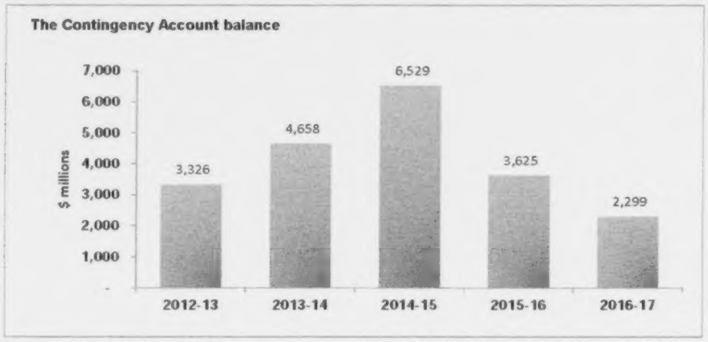
Prior Year's Results

0.3%	1.2%	0.5%	1.3%
2012-13	2013-14	2014-15	2015-16

Trend

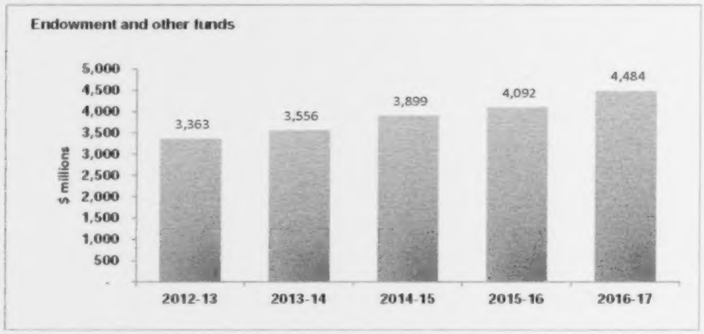
As noted above, weaker than expected value-add last year brought the five-year number down. The value-add number can fluctuate from year to year, but over the long run it is expected to be around the 1.0% level.

- TBF continued to manage and monitor the Contingency Account which acts as the province's short-term savings account. In times of surplus, funds are invested in short-term bonds and saved for future years.



- The ministry managed various endowment and other funds: Alberta Cancer Prevention Legacy Fund; the Alberta Enterprise Corporation; the Alberta Heritage Foundation for Medical Research Endowment Fund (AHFMR); the Alberta Heritage Scholarship Fund (AHSF); and the Alberta Heritage Science and Engineering Research Endowment Fund (AHSER).

Each fund was established to serve a specific purpose. For example, the AHSER provides income to the Ministry of Advanced Education, which in turn funds priority research efforts in a variety of fields. The AHSF provides scholarships to thousands of secondary and post-secondary students in Alberta, assisting them to pursue further academic and trades education.



Performance Indicator	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual
1.a Alberta Savings ($ millions):					
• The Alberta Heritage Savings Trust Fund book value	14,813	15,006	14,961	15,170	15,352
• The Contingency Account balance	3,326	4,658	6,529	3,625	2,299
• Endowment and other funds	3,363	3,556	3,899	4,092	4,484

Trend

The book value of the Alberta Heritage Saving Trust Fund increased by $182 million. The overall increase in the book value of the Fund over the past five years is due to legislated inflation proofing. The Contingency Account balance has decreased by $1,326 million. The Contingency Account balance has been drawn down during the downturn in oil prices to allow government to continue delivering services to Albertans. The book value of the Endowment and other funds increased by $392 million, reflecting favourable market returns.

Optimization of the tax system and technologies

During 2016-17, the department continued to optimize the tax system and technologies to better support public services and meet public demand.

- To establish a system that would minimize administrative and compliance efforts for industry as much as possible, electronic filing for the carbon levy program using the Tax and Revenue Administration Client Self-Service (TRACS) system was implemented. TRACS is a secure online system that allows taxpayers to file outside of regular business hours and save mailing costs. In addition, a secure web form was created to allow businesses to electronically submit their inventory declarations in support of the carbon levy.
- The department continued to monitor Alberta's tax system and provide tax policy information and jurisdictional comparisons to support government decisions. This includes analyses related to the development and implementation of the Lloydminster Competitive Adjustment Grant, which provides eligible fuel retailers in the border City of Lloydminster with a grant that covers the difference in total fuel tax and carbon levy imposed by Alberta and the fuel tax imposed by Saskatchewan on litres of qualifying fuel sold.

- A total of 212,405 tax returns were filed using the ministry's net file system, constituting 86 per cent of all corporate income tax returns. As of March 31, 2017, the first three months of 2017 resulted in 65.7 per cent of Tourism Levy returns, 76.2 per cent of International Fuel Tax Agreement returns, 100 per cent of Emergency 911 Levy returns, and 100 per cent of Carbon Levy Remitter Returns being submitted electronically. These results reflected the continued and increased use of electronic services that are improving the efficiency and effectiveness of government operations.
- TBF helped develop the Alberta Investor Tax Credit (AITC) and the Capital Investment Tax Credit (CITC), extended the political contributions tax credit to include contributions to party leadership elections and candidate nomination races, and adjusted Alberta's dividend tax credit rate for small businesses.
- An internal project was completed to automate the creation of journal entries in support of the administration of the International Fuel Tax Agreement (IFTA). This internal project reduced employee time spent on manual processing.
- The ministry enabled Alberta businesses to receive tax refunds through Electronic Fund Transfer in the Corporate Income Tax program. This convenient, reliable and secure method improves the timeliness with which Alberta businesses may receive any amounts owing.
- Work is progressing on the Alberta Gaming and Liquor Commission's (AGLC) multi-year strategy for gaming technology modernization which includes the implementation of a new casino management system and key supporting technologies. Gaming modernization includes investment in technology that encourages a healthy balance between sustaining revenue for the Alberta Lottery Fund and responsible gambling.

Outcome Two:
Policy and regulatory oversight for the financial, insurance and pensions sectors that is effective, fair and in the interests of Albertans

Planned key strategies to support this outcome included:

- Improve access to capital for Alberta's small and medium-sized enterprises through ATB Financial.
- Lead and implement changes to keep the policy and regulation of Alberta's pension, insurance and financial institutions sectors strong and modern, and to ensure risks are managed effectively.
- Work cooperatively with other jurisdictions to improve securities regulation in Canada and ensure a provincially-led regulatory system meets the needs of Alberta market participants and investors.

What this means:

Government recognizes that an effective, efficient and streamlined financial market, including a securities regulatory system, is vitally important for investor protection, and in creating vibrant and competitive national and local capital markets. It inspires investor confidence and supports competitiveness, innovation and growth in the economy.

Our responsibilities:

In pursuit of this outcome, Treasury Board and Finance helps to reduce risks relating to financial products and services by monitoring and regulating private sector pension plans, the insurance industry, credit unions, and loan and trust corporations in Alberta. The ministry also provides policy advice regarding securities regulation.

Results and Contributions from 2016-17:

The rapidly changing business environment requires responsive policy and regulation oversight from the government. The department made progress in the financial, insurance and pension sectors by monitoring trends and implementing policy and regulatory changes to reduce market risks, encourage investments and protect public interest.

Accessible capital for Albertans

TBF continued to support Alberta's economic growth and diversification through Alberta Treasury Branches (ATB Financial) that is committed to promoting entrepreneurship and financing small- and medium-sized enterprises (SMEs) in Alberta.

- ATB Financial made more than 12,000 new loans to SMEs with a value of approximately $3 billion. This is an increase of almost five hundred loans over its previous fiscal year (2015-16). ATB Financial's total loans outstanding to SMEs in Alberta are more than $7.5 billion.

Performance Measure		2016-17 Target	2016-17 Actual
2.a ATB Financial return on average risk weighted assets		0.70%	0.45%
Explanation of Variance			
The measure was below target as the current economic climate continues to place pressure on net income.			
Prior Year's Results			
0.76%	1.10%	1.10%	0.33%
2012-13	2013-14	2014-15	2015-16
Trend			
The significant economic downturn that started in Alberta in 2015-16 saw this metric drop from previous years. The expectation is for a gradual improvement over the next few years to historical levels as the economy in Alberta improves.			

Financial, insurance and pension policy and regulations

Products and services in the financial institutions, insurance and pensions sectors are evolving and transforming as a result of innovations and technological advancements. The department is committed to regulatory oversight and policy development to ensure that Alberta's financial institutions, insurance and pension sectors continue to be relevant, efficient, fair and in the interests of Albertans by recognizing changes in the market and quickly responding to new trends and emerging issues.

Financial Institutions

- Promoting strong governance and the application of robust risk management frameworks within the financial industry in Alberta help to minimize the potential risk of loss to depositors or trust beneficiaries in the event of the failure of their financial institution. The department, together with the Credit Union Deposit Guarantee Corporation worked with other regulatory bodies, both federal and provincial, auditors (internal and external), financial institutions and their industry associations in establishing and enforcing a regulatory framework that promotes the safety and soundness for all Alberta-regulated financial institutions.

Insurance

- The ministry continued to work closely with regulatory entities and industries to monitor and assess the solvency risks that may have potential impacts on the province's insurance companies and reciprocal insurance exchanges that the department oversees. This is of particular importance to the financial security of Albertans in light of the continued pressures on costs, technological advancement and profitability of the insurance industry. Attention is focused on local insurers who are bearing increasing pressures from catastrophic events, new technologies and emerging business models.
- The Office of the Superintendent of Insurance, along with the Ministry of Transportation, worked with the ride-for-hire industry, insurance companies, municipalities and other stakeholders to develop appropriate insurance coverages, licensing and police information checks that allow Transportation Network Companies (TNCs) to operate in Alberta. Effective July 1, 2016, TNCs could operate legally in Alberta.
- Beginning in July 2016, the department conducted a targeted stakeholder consultation on four major automobile insurance regulations - the Minor Injury Regulation (MIR), Diagnostic and Treatment Protocols Regulation (DTPR), Automobile Insurance Premiums Regulation (AIPR) and the Automobile Accident Insurance Benefits Regulations (AAIBR). The regulations under review deal with minor injuries, diagnostic and treatment protocols, no-fault medical benefits, and automobile insurance premiums. The review ensures that the regulations remain relevant, that Albertans have timely access to accident benefits if they are injured in an automobile accident, and that they continue to have access to fair and affordable automobile insurance.
- TBF launched an initiative to strengthen compliance with the market conduct amongst insurance companies and improve the quality of service provided to insurance customers in Alberta. This initiative included steps to educate insurance companies about common compliance issues that have a direct impact on Albertans, such as providing claimants with information about the dispute resolution process, and providing claim forms in a timely way. It is intended to motivate insurers to improve their use of processes designed to promote resolution of common disagreements with policyholders. In late 2016, TBF started a comprehensive review, including examination of the insurer's procedures to ensure the fair treatment of customers, of a large property and casualty insurer operating in Alberta.
- For fiscal year 2016-17, as incentive for insurers to improve their compliance with legislation supporting fair, affordable, and accessible insurance for Albertans, the Superintendent of Insurance penalized 16 insurers, a total of $1,162,000 for offences, including overcharging premiums and adverse contractual actions, under the *Insurance Act*.

Pension

- The President of Treasury Board, Minister of Finance signed an agreement-in-principle in June 2016 with finance ministers from across Canada to phase in a modest and balanced enhancement to the Canadian Pension Plan (CPP). The increase in CPP, when fully implemented in 2019, is designed to increase the income replacement rate from the current target of 25 per cent of income up to one-third (33.33 per cent) of income. The agreement-in-principle will see CPP contributions be phased in over seven years until 2025.

Securities Regulatory System

All provinces and territories, except Ontario, signed the *Provincial/Territorial Memorandum of Understanding Regarding Securities Regulation* in 2004, aiming at innovating and reforming the securities regulatory system to keep pace with the evolution of capital markets.

- The department worked with the Alberta Securities Commission (ASC) to ensure that Alberta's *Securities Act* remains up to date and harmonized with the other provinces and territories. The amendments to the *Securities Act* were passed in 2016, allowing Alberta to continue to fulfill its commitment to undertake ongoing reform of Alberta securities laws to strengthen Alberta and the Canadian securities regulatory system. In addition, fee-related sections of the Securities Regulation were repealed and moved to the new ASC Fee Rule.
- The execution of the Partnership Agreement by Alberta, Manitoba and Quebec, which will support these jurisdictions' commitment to ongoing reform of the securities regulatory system in Canada, has been deferred for a number of reasons, including provincial elections.

Outcome Three:
Accountable, effective and efficient government

Planned initiatives to support this outcome included:

- Strengthen financial stewardship by examining overall spending priorities and assessing how efficiently tax dollars are being used to deliver programs and services.
- Standardize and streamline financial processes and policies to improve government's enterprise resource planning capacity.
- Conduct a comprehensive review to develop a cash-management framework and governance model that will enable the most effective and efficient use of the government's financial assets.
- Collect and administer revenue fairly, effectively and efficiently. This includes strengthening processes with respect to tax collections and tax filing.
- Provide timely, reliable and relevant accounting, budgeting and policy advice to ensure Alberta's finances are presented in a clear format that reflects public sector financial reporting standards.
- Ensure that benefits from charitable gaming are distributed effectively to charities to support worthy causes across the province.

What this means:

The Government of Alberta is accountable to Albertans. Relevant programs and services to address complex and evolving public needs and interests must be delivered and require strong, effective and efficient financial processes.

Our responsibilities:

In pursuit of this outcome, Treasury Board and Finance (TBF) supports the government's Accountability Framework, setting policies, standards and best practices related to business planning, budgeting, performance evaluation, and financial reporting and disclosure. The department oversees government's financial assets in accordance with legislation, policy, tolerable risk and best practices. Finally, TBF assists government with achieving program efficiencies by conducting internal government audits and publishing cross government statistics to be used in program delivery.

Results and Contributions from 2016-17:

Strengthening the government's financial stewardship requires the department to develop policies and programs that reflect government's accountability and transparency, and maintain the integrated financial and control systems that promote excellence in operational efficiency and effectiveness.

Government policies

In 2016-17, the department continued its efforts in supporting the development and implementation of government policies and ensured that these policies reflect government's accountability, transparency and financial stewardship.

- TBF developed and implemented a new and open online recruitment process for Alberta's ABCs to ensure that the recruitment of boards and executives reflect the diverse experiences, situations and expectations of their stakeholders, while the skills, knowledge and qualifications meet the recruitment requirements. This initiative is part of government's commitment to improving governance, transparency and accountability for Alberta's ABCs. As of March 31, 2017, 3,647 people had registered on the new recruitment website and government has received a total of 3,718 applications for positions via this website.
- The AGLC remained committed to maintaining and maximizing charitable gaming proceeds in support of the valuable programs and services offered by eligible charities in Alberta. To ensure that Albertans' priorities and gaming integrity standards are maintained, the AGLC also remains committed to periodic reviews of the charitable gaming model and its related policies and practices.

Integrated financial systems

Integrated financial systems streamline government's financial management processes and enable efficient information sharing across government and ABCs. The department has been working with other ministries to deploy a new Enterprise Resource Planning (ERP) system which will provide: improved integration of financial management data and key performance indicators; faster, more accurate and less costly financial reports for both management and the public; and explicit and transparent audit functions for both management and auditors.

Financial reporting and disclosure

As one of the most important aspects of an accountable, effective and efficient government, financial reporting and disclosure continued to be improved and enhanced over the past year. New initiatives and disclosures have been undertaken to strengthen government's oversight on public agencies.

- TBF received an unqualified opinion on the Government of Alberta Consolidated Financial Statements from the Office of the Auditor General of Alberta (OAG). Obtaining an unqualified report from the OAG signifies that financial information is fairly stated in accordance with public sector accounting standards providing confidence in the quality of information concerning the province's financial performance. An unqualified audit opinion is the highest standard achievable. The following chart demonstrates that the government received an unqualified opinion in 2014-15, as in previous years.

Performance Indicator	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual
3.a Financial reporting: • Auditor General opinion on Government of Alberta Consolidated Financial Statements[2]	unqualified	unqualified	unqualified	unqualified	unqualified
Trend					
Consistently met the highest standard that can be expected to achieve in the auditor's opinion.					

Note: 2. Obtaining an unqualified report from the Auditor General signified that financial information is fairly stated in accordance with public sector accounting standards providing confidence in the quality of information concerning the province's financial performance.

- Given the importance of the Climate Leadership Plan, the department developed a new chapter dedicated to the Plan for *Budget 2017*, increasing reporting transparency on revenue and expenses, as well as expected emissions and economic impacts.
- The department provided fiscal plan and estimates data in an open data format, for the first time, in *Budget 2017*.

Operational efficiency and effectiveness

Over the past year, the department worked to address OAG recommendations and assist government to sustain operational expenses by improving operational efficiency.

- The department prioritized the work to ensure the completion of the 2014 and 2015 recommendations from the OAG with respect to the collection of corporate income taxes and the filing of corporate income tax returns.
  - This included the issuance of default assessments as of October 1, 2015. For the 2016-17 fiscal year, 143 default assessments were issued to 36 corporations for a total value of $4,018,744 (includes principal, penalties and interest); and
  - This work also included the development of Accounts Receivable management reporting to facilitate the analysis of corporate taxes outstanding.
- The government's target is to limit the growth in operational expense to the rate of population growth and inflation. The following chart demonstrates the performance regarding government's sustainable operating expense growth in 2016-17.

Performance Measure	2016-17 Target	2016-17 Actual
3.a Sustainable operating expense[3] growth (operating expense relative to the rate of population growth plus CPI)[4]	Operating expense growth will not exceed population growth plus CPI.	3.4% (operating expense) 2.8% (population plus CPI)

Explanation of Variance			
Although the 2016-17 operating expense growth actual was lower than the previous four-year average, this performance measure was not met. Operating expense was higher than the target due to the significant pressures on health, education and social services from continued population growth and increased income and social support caseloads arising from the economic slowdown.			
Prior Year's Results			
6.5% (operating expense)	3.3% (operating expense)	4.3% (operating expense)	2.7% (operating expense)
3.6% (population plus CPI) 2012-13	5.6% (population plus CPI) 2013-14	4.5% (population plus CPI) 2014-15	3.1% (population plus CPI) 2015-16
Trend			
The 2016-17 operating expense actual was lower than the previous four-year average of 4.2 per cent; while the population plus CPI hit a five-year low.			

Note: 3. Operating expense excludes Climate Leadership Plan.

Note: 4. The Consumer Price Index (CPI) is a measure of inflation.

- The following performance measure indicates that the ratio of amounts added to the net tax revenue to costs of administration met the target of 12:1. This measure is calculated by dividing the additional revenue obtained through the administrative effort by Tax and Revenue Administration's operating budget. It is a composite measure that reflects the different activities, such as collections, audit, corporate income tax processing, interest and penalties.

Performance Measure		**2016-17 Target**	**2016-17 Actual**
3.b Ratio of amounts added to the net tax revenue to costs of administration (as a measure of efficiency)		12:1	14.8:1
Explanation of Variance			
Target met.			
Prior Year's Results			
20:1[5] 2012-13	18:1[5] 2013-14	27:1[5] 2014-15	12.5:1 2015-16
Trend			
The composite structure of this performance measure makes it difficult to forecast.			

Note: 5. The ratios for 2012-13, 2013-14 and 2014-15 exceeded the target of 12:1. This is due to significant recoveries made by applying reassessments in Alberta similar to those used by the Canada Revenue Agency at the federal level. Most of these reassessments are currently under objection. Removing the impact of these reassessments results in revised ratios of 12:1 for 2012-13, 13:1 for 2013-14 and 17.6:1 for 2014-15. In addition, 2014-15 saw a substantial increase in the total dollar value of reassessments paralleled at the federal level. Removing the impact of these reassessments results in a further revised ratio for 2014-15 of 13:1.

Business planning and measuring performance

Business planning communicates the government's strategies on how to achieve desired outcomes. This accountability mechanism demonstrates how government will deliver programs and services that meet public needs. Continuously improving the planning and measuring processes was the focus of the department in 2016-17.

- The department worked closely with planning and reporting staff across government on a number of activities to support best practices in both business planning and performance reporting, such as updating the ***2017-20 Ministry Business Plan Standards***. The update included further detail on performance reporting expectations and practices, delivering an all-ministry performance measure workshop, and participating in a cross-ministry review and compliance team to assess the level of improvement in results analysis, performance variance analysis and overall compliance with annual report standards in all ministries' 2015-16 Annual Reports.
- TBF strengthened government accountability by managing and controlling the variance of actual operating expense from budget. The following indicator demonstrates the results:

Performance Indicator	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual	2016-17 Actual
3.b Alberta budget variance[6]: • Percentage change in actual government operating expense from budget	-0.9%	3.0%	1.2%	-0.05%	1.2%

Trend

The percentage change in actual government operating expense from budget varies each year. For 2016-17, the operating expense was 1.2 per cent higher than budget due to higher than budgeted spending to meet increased demand for health, social services and education.

Note: 6. To maintain comparability with prior years, the operating expense excludes the Climate Leadership Plan.

Outcome Four:
A strong and inclusive public service working together for Albertans

Planned initiatives to support this outcome included:

- Deliver a range of initiatives to support a diverse workforce with the capacity and expertise to serve Albertans.
- Improve employee engagement across the public service.
- Strengthen the foundations of the human resource system supporting the Alberta Public Service.

What this means:

The Public Service Commission (PSC) is responsible for establishing policies and programs to ensure Alberta has a professional, non-partisan, diverse and inclusive public service that proudly serves Albertans. This is achieved by providing expert advice, strategic leadership and stewardship as well as developing and delivering innovative supports and services to Alberta Public Service (APS) employees.

Our responsibilities:

The PSC is responsible for ensuring that the public service has experienced, competent, engaged and professional employees; a human resource community with effective advisors and strategic business partners; an integrated, coordinated, and consistent approach to talent management; and a modern, effective and responsive human resource system. Key responsibilities also include administering *Alberta's Public Service Act* and *Code of Conduct and Ethics for the Public Service of Alberta*; representing the Government of Alberta as the Employer in collective bargaining and other labour relations matters; and providing advice to senior executive and elected officials on human resource issues.

Results and Contributions from 2016-17:

The PSC continued to implement strategic priorities, building on initiatives that began in 2015-16, with a focus on diversity and engagement of the public service and the foundations of the human resource system.

Initiatives to support diversity, capacity and expertise

The PSC delivered a range of initiatives over the past year to support diversity, inclusion, engagement and expertise of the workforce to ensure that the APS is a great place to work and that Albertans receive high-quality programs and services. The PSC:

- Led the development, in collaboration with the Status of Women ministry, of an approach to advance diversity and inclusion in the APS to strengthen the government's ability to understand, respond to, and effectively serve an increasingly diverse population. Additionally, the department supported the development and implementation of government-wide training around gender based analysis and unconscious bias.
- Commenced development of mandatory Indigenous Awareness training, in collaboration with indigenous communities, for all APS employees and public agencies to enhance understanding of treaties, residential schools, and the historical and contemporary experiences of First Nations, Métis and Inuit people in Alberta in support of the United Nations Declaration on the Rights of Indigenous People.
- Developed a coordinated approach to managing executive talent (Deputy Ministers, Assistant Deputy Ministers, and Executive Managers) by supporting development and succession, building leadership capacity, and enhancing the ability to attract and retain talent in the APS.
- Established a new Assistant Deputy Minister Network to provide professional development opportunities and enhance leadership capacity.
- Developed and delivered orientation and onboarding sessions for Deputy Ministers, Assistant Deputy Ministers, and all APS employees.
- Enhanced policy capacity throughout the APS to ensure the best advice is provided to decision-makers through the delivery of the biennial Policy Matters Conference in June 2016, another intake of the government's Policy Internship Program in May 2016, continued delivery of Policy Essentials training, as well as providing other training and learning events for policy professionals.
- Increased awareness of the *APS Respectful Workplace Policy* through a new e-course for all APS employees and enhanced in-person training opportunities.

Employee engagement

A work environment that employs engaged employees enables the APS to deliver high quality programs and services to Albertans. Engaged employees are the foundation of a successful public service.

- Developed and launched *ENGAGE: Our APS People Strategy*, which echoes the voices of more than 5,000 employees who participated in engagement strategy sessions held across the province. The Strategy identifies actions in three priority areas, Connect, Lead, and Learn, to enhance employee engagement and measure the success of these actions.
- Enhanced internal communications across the public service in print, audio and visual formats. This included an inaugural APS-wide webinar with the Deputy Minister of Executive Council and weekly APS-wide newsletters featuring stories showcasing employees and excellence in service delivery to Albertans.

Foundations of the human resource system

A modern, effective, responsive and integrated human resource system streamlines government's talent management processes, enhances performance of the workforce, and enables the APS to provide better services to Albertans.

- In partnership with Service Alberta, the PSC has been working to deploy a new Enterprise Resource Planning (ERP) system which will provide the APS with effective tools for planning, attracting, developing, engaging and retaining top talent. The integration of human resource management data and key performance indicators will provide the APS with faster, more accurate and less costly human resources reporting.
- Ongoing training and regular communication, consultation and engagement with key department clients and stakeholders supported a common understanding of the intent and application of human resource policies, guidelines and directives in areas such as talent acquisition, classification, occupational health and safety, health management, and labour relations.

Performance Measure	2016-17 Target	2016-17 Actual
4.a Alberta Public Service Employee Engagement Index	62%	Not Available

Explanation of Variance

Beginning in 2015-16, a biennial survey schedule was adopted with targets and results available every other year. The survey was last conducted in 2015-16. Therefore a result was not available for 2016-17.

Prior Year's Results

2012-13	2013-14	2014-15	2015-16
65%	59%	N/A	60%

Trend

While the Employee Engagement Index results have declined over time, the last result in 2015-16 at 60 per cent was a slight increase over the previous result in 2013-14 at 59 per cent.

Performance Indicator	2011-12 Actual	2012-13 Actual	2013-14 Actual	2014-15 Actual	2015-16 Actual
4.a Employee Engagement inter-jurisdictional average[7]	N/A	66%	62%	59%	61%

Trend

The inter-jurisdictional employee engagement index has been stable since 2013-14. Alberta's results are consistent with the inter-jurisdictional trend and average.

Note: 7. In 2013-14, a seventh question was included in the calculation of the inter-jurisdictional engagement index for participating provinces and territories. Therefore, the 2012-13 results do not directly compare with future years.

Performance Measures Methodology

The Alberta Heritage Savings Trust Fund will earn a five-year annualized rate of return of CPI plus 4.5% (Measure 1.a)

Methodology

The performance measurement system employed by AIMCo calculates a total return of the Heritage Fund.

Consumer Price Index (CPI) is a measure of price movements of baskets of selected goods and services between two different points in time. CPI is calculated by Statistics Canada.

A comparison is made between annualized five-year market value rate of return of the Heritage Fund and annualized five-year CPI plus 5.5 per cent.

Source

The Heritage Fund return is calculated by the Investment Performance & Analytics group within AIMCo's Investment Operations team using SS&C Sylvan as the official performance system.

Market Index data is sourced by the Data Management group within AIMCo's Investment Operations team. Market Index and Benchmark returns are calculated by the Investment Performance & Analytics team using SS&C Sylvan.

SS&C– Sylvan: On a daily basis, daily data, through our overnight process, is automatically imported into Sylvan for calculation. When performance calculations are finished, portfolios, benchmark and attribution data are reviewed by the team through various in-house diagnostics tools to ensure accuracy. Annualized data is calculated within Sylvan as well.

AIMCo's investment returns in excess of the benchmark through active management, for the endowment and pension funds, annualized over a five year period (Measure 1.b)

Methodology

The performance measurement system employed by AIMCo calculates a total return of the Heritage Fund.

The policy benchmark is calculated through a weighted composition of independently calculated market benchmarks which represent the strategic asset mix of the Fund as set by the Department of Treasury Board and Finance.

A comparison is made between annualized five-year market value rate of return of the Heritage Fund and the annualized five-year return of the policy benchmark.

Source

The Heritage Fund return is calculated by the Investment Performance & Analytics group within AIMCo's Investment Operations team using SS&C Sylvan as the official performance system.

Market Index data is sourced by the Data Management group within AIMCo's Investment Operations team. Market Index and Benchmark returns are calculated by the Investment Performance & Analytics team using SS&C Sylvan.

SS&C– Sylvan: On a daily basis, daily data, through our overnight process, is automatically imported into Sylvan for calculation. When performance calculations are finished, portfolios, benchmark and attribution data are reviewed by the team through various in-house diagnostics tools to ensure accuracy. Annualized data is calculated within Sylvan as well.

Alberta Savings ($ millions):

- **The Alberta Heritage Savings Trust Fund book value (Indicator 1.a.i)**

Methodology

The Alberta Heritage Savings Trust Fund book value is calculated by Alberta Treasury Board and Finance after accounting for investments in the Fund and the Fund's expenses in the year in question, and the previous year's book value of the Fund.

Source

The Alberta Heritage Savings Trust Fund is found on the Statement of Financial Position in the Alberta Heritage Savings Trust Fund Financial Statements, contained in the Alberta Treasury Board and Finance Annual Report which is audited by the Auditor General.

Alberta Savings ($ millions):

- **The Contingency Account balance (Indicator 1.a.ii)**

Methodology

The Contingency Account balance is calculated by Alberta Treasury Board and Finance after accounting for all of the Government of Alberta's revenues and expenses in the year in question.

Source

The Contingency Account balance is taken from the Executive Summary in the Government of Alberta Annual Report. The information is found on the Balance Sheet table.

Alberta Savings ($ millions):

- **Endowment and other funds (Indicator 1.a.iii)**

Methodology

The Endowment and other funds accumulated operating surplus is calculated by Alberta Treasury Board and Finance after accounting for investments in the endowment and other funds and their expenses in the year in question, and the previous year's book value. The endowments and funds are made up of the Alberta Cancer Prevention Legacy Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund and the Alberta Enterprise Corporation.

Source

The Financial Statements for the Alberta Cancer Prevention Legacy Fund, the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund and the Alberta Heritage Science and Engineering Research Endowment Fund are contained in Alberta Treasury Board and Finance's Annual Report which is audited by the Auditor General. The Financial Statements for the Alberta Enterprise Corporation is in the Financial Statements for Economic Development and Trade, which is also audited by the Auditor General.

Sustainable level of government debt (ratio of debt to Nominal Gross Domestic Product (GDP) for Alberta) (Indicator 1.b)

Methodology

(2016-17 Actual Operating Expense less 2016-17 Budget Operating Expense)/2016-17 Budget Operating Expense.

Source

The Fiscal Summary Table contained in the Executive Summary of the GoA 2016-17 Annual Report.

ATB Financial return on average risk weighted assets
(Measure 2.a)

Methodology

Net Income / Average Risk Weighted Assets

Source

Net income - as per annual report

Average Risk Weighted Assets - per internal reporting systems

Ratio of amounts added to net tax revenue to costs of administration (as a measure of efficiency) (Measure 3.a)

Methodology

The measure is calculated by dividing the additional revenue obtained through administrative effort by Tax and Revenue Administration's operating budget.

Source

Data comprises a summary of revenue obtained through the revision of returns and claims, the collection of overdue accounts and recoveries due to audit activity. Data is generated through existing ORACLE and IMAGIS system reports and ad hoc reporting created for the purpose. Administrative costs are obtained through the Government of Alberta IMAGIS expense tracking system.

Sustainable operating spending growth (operating spending relative to population plus CPI) (Measure 3.b)

Methodology

1. Growth in operating expense is calculated based on data taken from the Executive Summary in the Government of Alberta Annual Report.

2. Population growth is calculated by taking the annual change in population at the midpoint of the fiscal year (October 1).

3. Inflation is the year over year growth in the average of the Alberta Consumer Price Index over the fiscal year (April to March).

Source

Growth in operating expense, population and inflation is calculated by Alberta Treasury Board and Finance.

Financial reporting

- **Auditor General opinion on Government of Alberta Consolidated Financial Statements (Indicator 3.a)**

Methodology

The actual opinion is completed by the Auditor General after the office completes their audit work on the consolidated financial statements for each respective year end.

Source

Independent auditor's report issued by the Auditor General for the government's consolidated financial statements.

Alberta budget variance

- **Percentage change in actual government operating expense from budget (Indicator 3.b)**

Methodology

The indicator is calculated by subtracting the Government of Alberta budgeted Operating Expense in any given year from the Government of Alberta actual Operating Expense in that year and then dividing the result by the Government of Alberta budgeted Operating Expense for that year.

Source

The Government of Alberta actual and budgeted Operating Expense are obtained from the Fiscal Summary table found in the Executive Summary of the Government of Alberta Annual Report.

Alberta Public Service Employee Engagement Index (Measure 4.a)

Methodology

The Employee Engagement Index is comprised of seven outcome statements where survey respondents choose on a scale of "strongly agree" to "strongly disagree" for each statement. The statements are as follows:

- Overall, I am satisfied with my work as an APS employee.
- Overall, I feel valued as an APS employee.
- I am satisfied with my ministry/department.
- I am inspired to give my very best.
- I would recommend the APS as a great place to work.
- I would prefer to stay with the APS, even if offered a similar job elsewhere.
- I am proud to tell people I work for the APS.

The results are the average percentage of employees who "agree" or "strongly agree" with each statement. Those percentages are then averaged to generate the overall index.

Source

2016 Employee Engagement Survey (Spring 2016)

Employee engagement index inter-jurisdictional average (Indicator 4.a)

Methodology

The inter-jurisdictional employee engagement index is calculated as an average of scores collected in each participating jurisdiction. For the purpose of calculating the inter-jurisdictional average, each jurisdiction is accorded equal weight. For biennial surveys, the results of each jurisdiction are used to calculate the average over two years.

The inter-jurisdictional employee engagement index is comprised of seven statements where survey respondents choose on a scale of "strongly agree" to "strongly disagree" for each statement. The statements are as follows:

- Overall, I am satisfied with my work as a [insert organization] employee.
- Overall, I feel valued as a [insert organization] employee.
- I am satisfied with my ministry/department.
- I am inspired to give my very best.
- I would recommend the [insert organization] as a great place to work.
- I would prefer to stay with the [insert organization], even if offered a similar job elsewhere
- I am proud to tell people I work for the [insert organization].

The results are the average percentage of employees who "agree" or "strongly agree" with each statement. Those percentages are then averaged to generate the overall index.

Source

Inter-jurisdictional Committees Joint Report 2016

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Financial Information

Financial Statements of the Ministry of Treasury Board and Finance and Other Organizations

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Ministry of Treasury Board and Finance

Consolidated Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the Members of the Legislative Assembly

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of the Ministry of Treasury Board and Finance, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of operations, change in (net debt) net financial assets and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Ministry of Treasury Board and Finance as at March 31, 2017, and the results of its operations, its change from net financial assets to net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 7, 2017

Edmonton, Alberta

Consolidated Statement of Operations

Year ended March 31, 2017

	($ millions)		
	2017		2016
	Budget	Actual	Actual
Revenues (Schedule 1)			
Income taxes	$ 15,730	$ 14,532	$ 15,552
Other taxes	3,552	3,179	2,834
Transfers from Government of Canada	1,568	1,563	1,772
Net investment income	1,842	3,356	2,220
Net income from government business enterprises	2,387	2,467	2,553
Premiums, fees and licences	102	151	127
Other revenue	391	378	359
	25,572	25,626	25,417
Expenses (Schedule 2)			
Ministry Support Services	31	28	24
Budget Development and Reporting	5	5	4
Fiscal Planning and Economic Analysis	6	5	5
Investment, Treasury and Risk Management	674	667	630
Office of the Controller	3	2	3
Corporate Internal Audit Services	4	3	4
Tax and Revenue Management	33	52	38
Financial Sector Regulation and Policy	194	175	180
Public Service Commission	25	22	19
Gaming	35	43	46
Climate Leadership Plan - Consumer Rebates	95	152	-
Alberta Family Employment / Scientific Research and Experimental Development Tax Credit	221	206	204
Teachers' pre-1992 pension liability funding	476	469	465
Pension recovery (Schedule 13)	(69)	(434)	(623)
Corporate income tax allowance adjustment	15	(142)	7
Debt servicing - school construction debentures	2	2	3
Debt servicing - Alberta Capital Finance Authority	167	189	185
Debt servicing - general government	714	699	468
	2,631	2,143	1,662
Annual Surplus	$ 22,941	$ 23,483	$ 23,755

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Financial Position

As at March 31, 2017

	($ millions)	
	2017	**2016**
Financial Assets		
Cash and cash equivalents (Schedule 3)	$ 6,355	$ 2,209
Accrued interest and accounts receivable (Schedule 4)	2,120	1,763
Portfolio investments (Schedule 5)	20,777	23,220
Equity in government business enterprises (Schedule 6)	3,864	3,795
Loans and advances (Schedule 7)	3,144	2,995
Loans of Alberta Capital Finance Authority (Schedule 8)	15,469	15,064
	51,729	49,046
Liabilities		
Accrued interest and accounts payable (Schedule 10)	2,032	2,250
Debt (Schedule 12)	50,079	34,976
Pension liability (Schedule 13)	9,217	9,651
Other accrued liabilities (Schedule 14)	104	107
	61,432	46,984
(Net Debt) / Net Financial Assets	(9,703)	2,062
Non-Financial Assets		
Tangible capital assets (Schedule 9)	139	147
(Net Liabilities) / Net Assets before spent deferred capital contributions	(9,564)	2,209
Spent deferred capital contributions (Schedule 11)	48	48
(Net Liabilities) / Net Assets	$ (9,612)	$ 2,161
(Net Liabilities) / Net Assets		
Net assets at beginning of year	$ 2,161	$ 11,749
Annual Surplus	23,483	23,755
Net financing provided for general revenues (Note 3b)	(35,138)	(33,332)
	(9,494)	2,172
Change in accumulated unrealized gains (Schedule 6)	(118)	(11)
(Net liabilities)/ Net assets at end of year	$ (9,612)	$ 2,161

Contractual obligations and contingent liabilities (Notes 6 and 7)

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Change in (Net Debt) / Net Financial Assets

Year ended March 31, 2017

($ millions)

	2017 Budget	2017 Actual	2016 Actual
Annual Surplus	$ 22,941	$ 23,483	$ 23,755
Acquisition of tangible capital assets	(21)	(15)	(23)
Amortization of tangible capital assets	21	23	18
Gain on sale of tangible capital assets		-	(2)
Proceeds from sale of tangible capital assets		-	5
Change in accumulated unrealized losses		(118)	(11)
Net financing provided for general revenues		(35,138)	(33,332)
Decrease in net financial assets		$ (11,765)	$ (9,590)
Net financial assets at beginning of year		2,062	11,652
(Net debt) / Net financial assets at end of year		$ (9,703)	$ 2,062

The accompanying notes and schedules are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended March 31, 2017

	($ millions) 2017	2016
Operating transactions		
Annual surplus	$ 23,483	$ 23,755
Non-cash items included in net operating results		
Income from government business entities (Schedule 6)	(2,467)	(2,553)
Pension recovery	(434)	(623)
Amortization, gains and losses on investments and debt, net	(742)	(269)
Corporate income tax allowance adjustment	(142)	7
Amortization of tangible capital assets (Schedule 2)	23	18
Remittances from government business entities (Schedule 6)	2,280	2,420
	22,001	22,755
(Increase) / Decrease in accounts and accrued interest receivable	(215)	89
(Decrease) / Increase in accounts and accrued interest payable	(218)	478
Other	9	3
Cash provided by operating activities	21,577	23,325
Capital transactions		
Purchase of tangible capital assets	(15)	(23)
Proceeds from sales of tangible capital assets	-	5
Cash applied to capital activities	(15)	(18)
Investing transactions		
Proceeds from disposals, repayments and redemptions of portfolio investments	11,291	9,208
Portfolio investments purchased	(8,085)	(8,042)
Repayments of loans and advances	2,673	2,145
Loans and advances made	(3,226)	(2,785)
Cash provided by investing activities	2,653	526
Financing transactions		
Debt issues	40,601	32,348
Debt retirement	(25,523)	(24,493)
Grants for school construction debenture principal repayment	(9)	(11)
Net financing provided for general revenues	(35,138)	(33,332)
Cash applied to financing activities	(20,069)	(25,488)
Increase / (Decrease) in cash and cash equivalents	4,146	(1,655)
Cash and cash equivalents at beginning of year	2,209	3,864
Cash and cash equivalents at end of year	$ 6,355	$ 2,209

The accompanying notes and schedules are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

March 31, 2017

NOTE 1 AUTHORITY

The President of Treasury Board, Minister of Finance has been designated as responsible for various Acts by the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000, and its regulations. To fulfill these responsibilities, the President of Treasury Board, Minister of Finance administers the organizations listed below. The authority under which each organization operates is also listed. Together, these organizations form the Ministry of Treasury Board and Finance (the Ministry).

Department of Treasury Board and Finance (the Department)
Government Organization Act, Chapter G-10, Revised Statutes of Alberta 2000

Alberta Cancer Prevention Legacy Fund
Alberta Cancer Prevention Legacy Act, Chapter A-14.2

Alberta Heritage Foundation for Medical Research Endowment Fund
Alberta Research and Innovation Act, Chapter A-31.7, Statutes of Alberta 2009

Alberta Heritage Savings Trust Fund
Alberta Heritage Savings Trust Fund Act, Chapter A-23, Revised Statutes of Alberta 2000

Alberta Heritage Scholarship Fund
Alberta Heritage Scholarship Act, Chapter A-24, Revised Statutes of Alberta 2000

Alberta Heritage Science and Engineering Research Endowment Fund
Alberta Research and Innovation Act, Chapter A-31.7, Statutes of Alberta 2009

Alberta Risk Management Fund
Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000

Provincial Judges and Masters in Chambers Reserve Fund
Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000

Supplementary Retirement Plan Reserve Fund
Treasury Board Directive pursuant to the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000

Alberta Capital Finance Authority (ACFA)
Alberta Capital Finance Authority Act, Chapter A-14.5, Revised Statutes of Alberta 2000

Alberta Insurance Council
Insurance Act, Chapter I-3, Revised Statutes of Alberta 2000

Alberta Gaming and Liquor Commission (AGLC)
Gaming and Liquor Act, Chapter G-1, Revised Statutes of Alberta 2000

Alberta Local Authorities Pension Plan Corp.
Incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000

Alberta Lottery Fund
Gaming and Liquor Act, Chapter G-1, Revised Statutes of Alberta 2000

NOTE 1 AUTHORITY CONTINUED

Alberta Investment Management Corporation (AIMCo)
Alberta Investment Management Corporation Act, Chapter A-26.5

Alberta Pensions Services Corporation
Incorporated under the *Business Corporations Act*, Chapter B-9,
Revised Statutes of Alberta 2000

Alberta Securities Commission
Incorporated June 1, 1995 under the *Securities Act*, Chapter S-4,
Revised Statutes of Alberta 2000

ATB Financial and its subsidiaries
Alberta Treasury Branches Act, Chapter A-37, Revised Statutes of Alberta 2000

Credit Union Deposit Guarantee Corporation (CUDGC)
Credit Union Act, Chapter C-32, Revised Statutes of Alberta 2000

N.A. Properties (1994) Ltd.
Amalgamated corporation under the *Business Corporations Act*, Chapter B-9,
Revised Statutes of Alberta 2000

Gainers Inc.
Incorporated under the *Business Corporations Act*, Chapter B-9,
Revised Statutes of Alberta 2000

NOTE 2 PURPOSE

The Ministry's focus is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a strong and inclusive public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury and risk management;
- government accounting standards; financial management policies; performance planning and reporting;
- tax policy and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation;
- Public Agency Secretariat (PAS) collaborates with departments and public agencies to promote a consistent approach to public agency governance, recruitment and compensation; and
- strategic leadership of human resources management for the Alberta Public Service.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

a) METHOD OF CONSOLIDATION

The Department, Alberta Cancer Prevention Legacy Fund, Alberta Heritage Foundation for Medical Research Endowment Fund, Alberta Heritage Savings Trust Fund, Alberta Heritage Scholarship Fund, Alberta Heritage Science and Engineering Research Endowment Fund, Alberta Risk Management Fund, Alberta Capital Finance Authority, Alberta Insurance Council, Alberta Local Authorities Pension Plan Corp., Alberta Lottery Fund, Alberta Pensions Services Corporation, Alberta Securities Commission, Alberta Investment Management Corporation, N.A. Properties (1994) Ltd., and Gainers Inc., which all report under Canadian public sector accounting standards, and Provincial Judges and Masters in Chambers Reserve Fund, and Supplementary Retirement Plan Reserve Fund which are reported under Canadian accounting standards for pension plans, are consolidated after adjusting them to a basis consistent with the accounting policies described below in (d). Intra-ministry transactions (revenues, expenses, capital, investing and financing transactions, and related asset and liability accounts) have been eliminated.

The government business enterprises of AGLC, ATB Financial, and Credit Union Deposit Guarantee Corporation, which report under International Financial Reporting Standards (IFRS) are consolidated on a modified equity basis. Under the modified equity method, the accounting policies of government business enterprises are not adjusted to conform to those of the government sector entities. Inter-sector revenue and expense transactions and related asset and liability balances are not eliminated.

b) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (the Province) operate within the General Revenue Fund. The President of Treasury Board, Minister of Finance administers the General Revenue Fund. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund. Net financing provided for general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Ministry.

c) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued these following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1,2017)**

PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/ or liabilities, together with related program or operating responsibilities.

- **PS 3450 Financial Instruments**

In June 2011 the Public Sector Accounting Board issued this accounting standard effective April 1, 2019. The department has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 or earlier. Adoption of this standard requires corresponding adoption of: PS 2601 Foreign Currency Translation; PS 1201 Financial Statement Presentation; and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments.

Management is currently assessing the impact of these standards on the financial statements.

d) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. A receivable is established for tax assessments that are outstanding. Revenue and tax receivables will be adjusted in the year in which any additional information becomes available from resulting audits, appeals, and court decisions. Corporate income tax refunds payable are accrued based primarily on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The adjustment to the allowance is recorded as an expense. The adjustment may increase or decrease the allowance as tax receivables are revalued in subsequent years based on resulting audits, appeals, and court decisions.

Personal income tax is recognized on an accrual basis based on an economic estimate of the various components of personal income tax for the fiscal year. Gross personal income tax growth for the taxation year is a key component of the estimate for the fiscal year.

The Provincial tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Ministry has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records when determined necessary by Tax and Revenue Administration. However, such procedures cannot identify all sources of unreported income or other cases of non-compliance with tax laws. The Ministry does not estimate the amount of unreported tax.

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delivered under the Alberta/Federal Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

The Alberta Climate Leadership Adjustment Rebate is a refundable tax credit provided to lower and middle income Alberta households to help them adjust to the cost of carbon. This program is delivered by the federal government on Alberta's behalf. The first rebate payments were made January 1, 2017, to coincide with the introduction of Alberta's Carbon Levy, and are reported in the period in which the payments are made to Albertans.

Transfers from Government of Canada

Transfers from Government of Canada are recognized as revenue when authorized by federal legislation or federal/provincial agreements, eligibility criteria and stipulations, if any, are met and a reasonable estimate of the amounts can be made. Overpayments related to Canada Social Transfer entitlements and transfers received before revenue recognition criteria have been met are included in accounts payable and accrued liabilities.

Expenses

Expenses represent the cost of resources consumed during the year on Ministry operations as well as pension liability funding, pension recovery, tax credits, corporate income tax provision for doubtful accounts, and debt servicing costs. Expenses include amortization of tangible capital assets. Grants are recognized as expenses when authorized, eligibility criteria if any are met, and a reasonable estimate of the amounts can be made.

The pension recovery for the pension liability includes interest on the Ministry's share of the unfunded liability and amortization of deferred adjustments over the expected average remaining service life of employees.

Also included in expenses is pension costs comprised of the cost of employer contributions for current service of employees during the year and additional government and employer contributions for service relating to prior years.

Certain expenses, primarily for office space and legal advice, incurred on behalf of the Ministry by other ministries are not reflected in the consolidated statement of operations. Schedule 15 discloses information on these related party transactions.

Derivative Contracts

Income and expense from derivative contracts are included in investment income or debt servicing costs.

Certain derivative contracts which are primarily interest rate swaps are reported as interest rate derivatives for which there is an underlying matching asset and liability, are recognized at cost plus accrued interest. Gains and losses from these derivatives are recognized in the same period as the gains and losses of the specific assets and liabilities.

Derivative contracts without an underlying matching asset and liability, which are primarily bond index swaps reported as interest rate derivatives, equity index swaps and equity index futures reported as equity replication derivatives, and forward foreign exchange contracts reported as foreign currency derivatives, are recognized at fair value.

The estimated amounts receivable and payable from derivative contracts are included in accrued interest receivable and payable respectively.

Financial Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of business. Financial assets of the Ministry are limited to financial claims, such as advances to and receivables from other organizations, taxpayers, employees and other individuals as well as cash and cash equivalents, portfolio investments, and equity in government business enterprises.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Accounts Receivable and Accrued Interest Receivable

Accounts receivable and Accrued Interest Receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Portfolio Investments

Portfolio investments, which are investments authorized by legislation to provide income for the long term or for other special purposes, are carried at cost. Cost includes amortization of discount or premium using the straight line method over the life of the investments. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost.

Loans and advances

Loans and advances are recognized at cost less any allowance for credit loss. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Liabilities

Liabilities are recognized to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Debentures included in debt are recognized at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs.

Income or expense on interest rate swaps used to manage interest rate exposure is recognized as an adjustment to debt servicing costs.

The value of the pension liability and changes therein during the year are based on an actuarial extrapolation of the most recent actuarial valuation. This valuation technique uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees. Where the Province has a liability only for pre-1992 pension obligations experience gains or losses are recognized in the year incurred.

Spent deferred capital contributions are a liability which are excluded from net financial assets.

Non-Financial Assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver government services;

(b) may be consumed in the normal course of operations; and

(c) are not for sale in the normal course of operations.

Non-financial assets of the ministry are limited to tangible capital assets.

Tangible Capital Assets

Assets acquired by right are not included. Tangible capital assets of the Ministry are recognized at historical cost and amortized on a straight line basis over the estimated useful lives of the assets (see Schedule 9). The threshold for capitalizing new systems development is $250,000 and the threshold for all other capital assets is $5,000. Amortization is only charged if the tangible capital asset is in use.

(Net Debt) / Net Financial Assets

(Net debt) / Net financial assets represents the difference between the carrying value of assets held by the Ministry and its liabilities.

Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year end rate of exchange.

Foreign currency transactions are translated into Canadian dollars using the average rate of exchange for the day, except for hedged foreign currency transactions which are translated at rates of exchange established by the terms of the hedging agreement.

Exchange gains and losses that arise on translation of fixed term foreign currency denominated monetary items are deferred and amortized over the life of the contract.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, the valuation of private investments and hedge funds and the provisions for pension obligations.

Personal income tax revenue, totaling $10,763 million (2016: $11,357 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of personal household income growth used in determining personal income tax for the current fiscal year is -4.5% for 2016 calendar year (0.5% for 2015) and 1.8% for 2017 calendar year (-1.2% for 2016). Based on historical data, there is an uncertainty of plus or minus $510 million (2016: $560 million) in the personal income tax revenue estimate.

Corporate income tax revenue, totaling $3,692 million (2016: $4,143 million), see Schedule 1, and corporate income tax refunds payable of $626 million (2016: $973 million), see Schedule 10, are subject to measurement uncertainty due primarily to the timing differences between tax installments collected and future tax assessments, along with the estimate for the corporate income tax allowance.

The pension liability of $9,217 million (2016: $9,651 million), Schedule 13, is subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 4 VALUATION OF PORTFOLIO INVESTMENTS AT FAIR VALUE

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The methods used to determine the fair values of portfolio investments are explained in the following paragraphs.

> Public fixed-income securities and equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.
>
> Mortgages and certain non-public provincial debentures are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
>
> The fair value of alternative investments including absolute return strategy investments, investments in limited partnerships, private investment funds, private equities and securities with limited marketability is estimated using methods such as cost, discounted cash flows, earnings multiples, prevailing market values for instruments with similar characteristics and other pricing models as appropriate.
>
> Real estate investments are reported at their most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by

qualified external real estate appraisers using methods such as replacement cost, discounted cash flows, earnings multiples, prevailing market values for properties with similar characteristics and other pricing models as appropriate.

As quoted market prices are not readily available for private and alternative investments and private real estate, estimated fair values may not reflect amounts that could be realized upon immediate sale, nor amounts that may ultimately be realized. Accordingly, the estimated fair values may differ significantly from the values that would have been used had a ready market existed for these investments.

The fair value of derivative contracts related to portfolio investments are included in the fair value of portfolio investments. The estimated amount receivable or payable from derivative contracts at the reporting date is determined by the following methods:

Equity and bond index swaps are valued based on changes in the appropriate market based index net of accrued floating rate interest. Forward foreign exchange contracts and equity index and interest rate futures contracts are valued based on quoted market prices. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure change in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 5 FINANCIAL RISK MANAGEMENT

a) DEBT MANAGEMENT

The objective of the Ministry's debt management activity is to raise funding for the Province and its agencies in a cost-effective manner, while ensuring that borrowed funds can be serviced and repaid as scheduled.

The Ministry's debt management goals include: ensuring sufficient liquidity to meet the Province's financial commitments and withstand market disruptions, providing stable and low-cost funding for the Ministry, maintaining access to both domestic and global debt markets to provide financing and liquidity for the Ministry and strategically structuring the debt portfolio to allow for prudent management of maturities and refinancing.

Debt of provincial corporations and regulated funds is managed separately in relation to their stated requirements and respective authorities.

In order to achieve this objective, the Ministry manages the following risks within approved policy guidelines:

- Refinancing risk is the risk that debt will have to be rolled over at an unusually high cost, or in extreme cases, cannot be rolled over at all.
- Interest rate exposure risk is the risk that debt servicing costs will increase as interest rates increase due to changes in floating interest rate debt, financing and refinancing of debt at long term interest rates.
- Foreign currency risk is the risk of increased debt servicing costs or larger refinancing requirements due to unfavourable movements in foreign currency markets.

NOTE 5 FINANCIAL RISK MANAGEMENT CONTINUED

- Liquidity risk is the risk that the Province will have insufficient cash to meet its financial commitments. This refers to a disruption in which funds cannot be raised in capital markets due to external forces.
- Credit risk is the risk of loss on invested funds in which an issuer or investment counterparty does not meet or defaults on its obligations.
- Operational risk is the risk that results from internal human and systems errors or inadequate processes and controls.
- Settlement risk is the risk that arises from non-simultaneous payment exchanges (late or missed payments).

b) ASSET MANAGEMENT

Cash and cash equivalents are used to repay debt as it matures, to provide funding for the capital and fiscal plans, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters and other unforeseen cash requirements.

The portfolio investments that the Ministry holds are exposed to credit risk and market risk. Market risk is comprised of currency exchange risk, interest rate risk and price risk. In order to earn the best possible return at an acceptable level of risk, the Ministry has established policies for the asset mix of its investment portfolios.

The Ministry reduces its investment risk by holding many different types of assets, investing in securities from various governments and companies in different industries and countries, having quality constraints on fixed income instruments, and restricting amounts exposed to countries designated as emerging markets.

A large percentage of the Ministry's portfolio investments are in the Alberta Heritage Savings Trust Fund. The target policy asset mix is: interest-bearing securities 15-45%, equities 35-70%, and inflation sensitive and alternative investments 15-40%.

The investments in the Alberta Heritage Foundation for Medical Research Endowment Fund, the Alberta Heritage Scholarship Fund, the Alberta Heritage Science and Engineering Research Endowment Fund and the Alberta Cancer Prevention Legacy Fund are managed to provide an annual level of income for the purpose of making grants to researchers in the fields of medicine, science and engineering, and to students.

NOTE 6 CONTRACTUAL OBLIGATIONS

Obligations to outside organizations in respect of contracts entered into before March 31, 2017 amounted to $407 million (2016: $309 million). These amounts include obligations under operating leases which expire on various dates.

The aggregate amounts payable for the unexpired terms of these contracts and leases are as follows:

	($ millions)
2017-18	$ 69
2018-19	56
2019-20	51
2020-21	42
2021-22	39
Thereafter	150
	$ 407

In addition, the Ministry has outstanding loan commitments of $210 million (2016: $47.5 million). The contracts for government business enterprises are disclosed in Schedule 6.

NOTE 7 CONTINGENT LIABILITIES

Set out below are details of contingent liabilities resulting from guarantees, indemnities and litigation, other than those reported as liabilities.

Any losses arising from the settlement of contingent liabilities are treated as current year expenses.

a) GUARANTEES AND INDEMNITIES

The Province of Alberta ensures the debt of ACFA of $2,234 million (2016: $2,834 million) and Alberta Social Housing Corporation of $59 million (2016: $59 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Province of Alberta, through the Department, will ensure that this obligation of the Corporation is carried out. At March 31, 2017, credit unions in Alberta held deposits totaling $21,590 million (2016: $20,671 million). Substantial assets are available from credit unions to safeguard the Department from the risk of loss from its potential obligation under the Act.

The Province of Alberta ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee of $43 million (2016: $48 million) payable by ATB Financial. Payments under the guarantee are under authority of a supply vote. At March 31, 2017, ATB Financial had deposits totalling $36,820 million (2016: $35,910 million).

The Province, through the Ministry and Agriculture and Forestry, provide guarantees of $64 million (2016: $55 million) to feeder associations.

The Ministry, through the Canadian Securities Administrators National Systems operations management and governance agreement, have committed to pay 25 per cent of any shortfall from approved system operating costs that exceed revenues should there not be an accumulated operating surplus available to offset. As at March 31, 2017 the accumulated operating surplus is $151.7 million (2016: $139.9 million).

Payments under guarantees are a statutory charge on the Ministry.

NOTE 7 CONTINGENT LIABILITIES CONTINUED

b) LEGAL ACTIONS

At March 31, 2017, the Ministry was involved in various legal actions through the consolidated entities. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the Ministry is jointly or separately named as a defendant in twelve (2016: sixteen) legal claims of which the outcome is not determinable. Of the twelve claims, nine (2016: nine) have specified amounts totaling approximately $87 million (2016: $85 million) and three (2016: seven) claims have no specified amount. Three (2016: four) claims totaling $32 million (2016: $33 million) are covered by the Alberta Risk Management Fund.

The legal actions for the government business enterprises are disclosed in Schedule 6.

In addition, at March 31, 2017, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 8 DERIVATIVE CONTRACTS

A derivative is a financial contract with the following three characteristics: (1) its value changes in response to the change in a specified interest rate, equity index price, foreign exchange rate or credit rating; (2) it requires no initial net investment or the initial investment is smaller than required for exposure to a similar investment market; and (3) it is settled in the future. The Ministry uses various types of derivative contracts held indirectly through pooled investment funds to gain access to equity markets and enhance returns or to manage exposure to interest rate risk, currency risk and credit risk.

The following is a summary of the fair values of the Ministry's derivative contracts by type:

	($ millions)	
	2017	**2016**
	Fair Value (a)(b)(c)	**Fair Value**
Interest rate derivatives (d)	$ (808)	$ (1,046)
Equity replication derivatives (e)	31	124
Foreign currency derivatives (f)	(25)	254
Credit risk derivatives (g)	8	3
Derivative-related receivables, net	(794)	(665)
Deposits in futures contracts margin accounts	20	60
Deposits as collateral for derivative contracts	5	8
Net derivatives	$ (769)	$ (597)

(a) Current credit exposure is represented by the current replacement cost of all outstanding contracts in a favourable position (positive fair value). The Ministry attempts to limit its credit exposure by dealing with counter-parties believed to have good credit standing (A+ or greater).

(b) The method of determining the fair value of derivative contracts is described in Note 3.

[c] Includes ACFA interest rate derivatives with a net fair value of $(667) million (2016: $(945) million) of which 10% will mature in under one year, 7% in one to three years and 83% in over three years.

Under the Province of Alberta's master agreement with counterparties, ACFA can, in the event of a counterparty default, net its favourable and unfavourable positions with the counterparty. In addition, under the agreement, several Credit Support Annexes have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. As at March 31, 2017, $9.9 million (2015: nil) in non-cash collateral on net unfavourable positions has been posted to one counterparty on ACFA's behalf, and a total of $134.8 million (2016: $93 million) in non-cash collateral on net favourable positions from two counterparties has been posted on ACFA's behalf.

[d] Interest rate derivatives allow the Ministry to exchange interest rate cash flows (fixed, floating and bond index) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, bond index swaps, futures contracts and options.

[e] Equity replication derivatives provide for the Ministry to receive or pay cash based on the performance of a specific market-based equity index, security or basket of equity securities applied to a notional amount. Equity derivatives primarily include equity index swaps, futures contracts and rights, warrants and options.

[f] Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

[g] Credit risk derivatives include credit default swaps, allowing the Ministry to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount, in exchange for a contingent payment, should a defined credit event occur with respect to the underlying security.

The derivatives of government business enterprises are disclosed in Schedule 6.

NOTE 9 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

The Ministry administers trust and other funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Ministry has no equity in the funds and administers them for the purposes of various trusts, they are not included in the Ministry's consolidated financial statements.

As at March 31, 2017, the fair value of trust and other funds under administration were as follows:

	($ millions) 2017	2016
Local Authorities Pension Plan Fund	$ 39,289	$ 34,420
Public Service Pension Plan Fund	12,381	10,881
Management Employees Pension Plan Fund	4,756	4,258
Special Forces Pension Plan Fund	2,782	2,475
Long term Disability Income Plan, Bargaining Unit	276	255
Long term Disability Income Plan, Management, Opted out and Excluded	72	71
Group Life Insurance Plan, Bargaining Unit	4	4
Group Life Insurance Plan, Management, Opted out and Excluded	33	29
Government of Alberta Dental Plan Trust	14	13
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	34	34
AGLC charitable proceeds under administration	17	18
Other pension plan funds and trust funds	696	617
	$ 60,354	$ 53,075

In addition, AIMCo, which provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans has $7,919 million (2016: $7,264 million) of assets under administration that are not reported as assets or trusts by the Ministry.

NOTE 10 DEFINED BENEFIT PLANS

The Ministry jointly sponsors and participates in three multi-employer pension plan: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense to the Ministry for its employees in these plans is equivalent to the annual contributions of $11 million for the year ended March 31, 2017 (2016: $11 million).

At December 31, 2016, the Management Employees Pension Plan reported a surplus of $402 million (2015: $299 million), Public Service Pension Plan reported a surplus of $303 million (2015: deficiency of $133 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $50 million (2015: $16 million).

Long Term Disability Income Continuance Plans

The ministry administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective June 21, 2015, the employers contribute at a rate of 1.35 per cent of insurable salary. Long term disability benefits are funded equally by the employer and employees of this plan. At March 31, 2017, the Bargaining Unit Plan reported an actuarial surplus of $102 million (2016: surplus $83 million).

For the Management, Opted Out and Excluded plan, effective June 21, 2015, the employers contribute at a rate of 0.60 per cent of insurable salary. At March 31, 2017 the Management, Opted Out and Excluded plan reported an actuarial surplus of $31 million (2016: $29 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2017, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2016: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The ministry also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2017, the Bargaining Unit plan reported net assets of $4 million (2016: $4 million) and the Management, Opted Out and Excluded plan reported net assets of $33 million (2016: $29 million). These amounts currently subsidize claim costs and stabilize premium rates for the plans. Management produced estimates based on available March 2016 data, which was reviewed by the actuary for reasonableness. The ministry, together with other participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2016, the Government of Alberta Dental Plan Trust reported net assets of $14 million (2015: $13 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $34 million (2015: $34 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The ministry, together with the participating ministries, records their share of employer contributions as expenses in their respective financial statements.

Public Service Health Spending Account Plan

The ministry also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2016 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2017, the Public Service Health Spending Account Plan reported net assets of $428,000 (2016: $442,402). The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 11 COMPARATIVE FIGURES

Comparative figures have been reclassified, where necessary, to conform to 2017 presentation.

NOTE 12 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

Schedules to the Consolidated Financial Statements

March 31, 2017

REVENUES

SCHEDULE 1

	($ millions)		
	2017		2016
	Budget	Actual	Actual
Income taxes			
Personal income tax	$ 11,405	$ 10,763	$ 11,357
Corporate income tax	4,325	3,692	4,143
Interest and penalties on corporate income tax	-	77	52
	15,730	14,532	15,552
Other taxes			
Tobacco tax	1,139	953	980
Fuel tax	1,469	1,344	1,370
Insurance taxes	583	548	397
Carbon Levy	274	250	-
Tourism levy	80	77	80
Special broker tax	7	6	6
Interest and penalties on other tax	-	1	1
	3,552	3,179	2,834
Transfers from Government of Canada			
Canada Social Transfer	1,563	1,558	1,516
Fiscal Stabilization Program	-	-	251
Unconditional subsidy	5	5	5
	1,568	1,563	1,772
Net investment income	1,842	3,356	2,220
Net income from government business enterprises			
Alberta Gaming and Liquor Commission	2,319	2,285	2,409
ATB Financial	27	151	108
Credit Union Deposit Guarantee Corp.	41	31	36
	2,387	2,467	2,553
Premiums, fees, and licences			
ATB Financial payment in lieu of taxes	9	45	32
ATB Financial deposit guarantee fee	50	43	48
Alberta Securities Commission	30	48	34
Alberta Insurance Council	7	6	6
Other	6	9	7
	102	151	127
Other revenue			
Pensions administration	61	57	54
Service revenue	310	292	270
Insurance services	17	16	16
Securities settlements	1	2	2
Refunds of expenditure and miscellaneous	2	11	17
	391	378	359
	$ 25,572	$ 25,626	$ 25,417

EXPENSE BY OBJECT

SCHEDULE 2

($ millions)

	2017		2016
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 208	$ 247	$ 249
Supplies and services	480	417	386
Grants	531	578	414
Pension liability funding	554	536	540
Interest payments on corporate tax refunds	9	29	17
Pension recovery (Schedule 13)	(69)	(434)	(623)
Corporate income tax allowance adjustment	15	(142)	7
Amortization of tangible capital assets	21	23	18
Other financial transactions	1	1	1
Debt servicing costs	881	888	653
	$ 2,631	$ 2,143	$ 1,662

CASH AND CASH EQUIVALENTS

SCHEDULE 3

($ millions)

	2017	2016
Cash	$ 389	$ 603
Cash equivalents	5,966	1,606
	$ 6,355	$ 2,209

At March 31, 2017, deposits in banks had a time-weighted return of 0.9% (2016: 0.8%) per annum and securities have an average effective yield of 0.7% (2016: 0.8%) per annum.

ACCRUED INTEREST AND ACCOUNTS RECEIVABLE

SCHEDULE 4

	($ millions)	
	2017	**2016**
Corporate income tax [(a)]	$ 649	$ 792
Personal income tax	-	424
Interest and penalties receivable on taxes [(a)]	259	321
Proceeds from debt issuance	690	-
Accrued interest receivable	192	221
Receivable from ATB Financial	88	80
Insurance corporations tax	148	104
Carbon levy	108	-
Fuel tax	107	112
Tobacco tax	1	9
Tourism levy	8	8
Financial institutions capital tax	2	2
Other	81	62
	2,333	2,135
Less corporate income tax allowance adjustment	(213)	(371)
Less allowance for doubtful accounts	-	(1)
	$ 2,120	$ 1,763

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2017	**2016**
Less than one year	$ 336	$ 327
1-2 years	183	309
2-3 years	121	116
3-4 years	90	65
4-5 years	59	51
Over 5 years	119	245
Total	$ 908	$ 1,113

At March 31, 2017, 865 (2016: 898) corporate income tax files totaling $614 million (2016: $793 million) were under objection/dispute.

PORTFOLIO INVESTMENTS

SCHEDULE 5

($ millions)

	March 31, 2017		March 31, 2016	
	Cost	Fair Value	Cost	Fair Value
Interest-bearing securities				
Bonds, mortgages and private debt	$ 4,649	$ 4,604	$ 8,165	$ 8,248
	4,649	4,604	8,165	8,248
Equities				
Canadian	1,843	2,091	1,858	1,973
Global developed	6,339	6,581	5,909	6,208
Emerging markets	750	873	588	673
Private	1,333	1,516	1,332	1,741
	10,265	11,061	9,687	10,595
Inflation sensitive and alternative investments				
Private real estate	3,553	4,833	3,477	5,010
Private infrastructure investments	1,775	1,987	1,348	1,596
Timberland	346	531	330	495
	5,674	7,351	5,155	7,101
Strategic, tactical and currency investments	189	251	213	247
Total portfolio investments	$ 20,777	$ 23,267	$ 23,220	$ 26,191
Portfolio investments for:				
Department	$ -	$ -	$ 3,617	$ 3,588
Alberta Heritage Savings Trust Fund (a)	16,100	18,232	15,302	17,878
Other funds and entities (a)	4,677	5,035	4,301	4,725
	$ 20,777	$ 23,267	$ 23,220	$ 26,191

(a) Mainly comprised of assets designated in legislation for a specific purpose, such as stewardship of savings, cancer prevention, medical research, science and engineering research, and post-secondary scholarships.

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES

SCHEDULE 6

	($ millions)	
	2017	**2016**
Accumulated surpluses at beginning of year	$ 3,795	$ 3,673
Total revenue	5,692	5,975
Total expense [(a)]	3,225	3,422
Net income	2,467	2,553
Change in accumulated unrealized gains	(118)	(11)
Remittances from AGLC	(2,280)	(2,420)
Accumulated surpluses at end of year	$ 3,864	$ 3,795
Represented by		
Assets		
Loans	$ 40,814	$ 40,356
Investments	5,783	4,076
Other assets	2,867	3,240
Total assets	49,464	47,672
Liabilities		
Accounts payable	2,597	2,469
Deposits [(b)]	36,190	35,910
Unmatured debt	6,813	5,498
Total liabilities	45,600	43,877
	$ 3,864	$ 3,795
Accumulated surpluses at end of year		
ATB Financial	$ 3,147	$ 3,110
Alberta Gaming & Liquor Commission	382	377
Credit Union Deposit Guarantee Corporation	335	308
Equity in commercial enterprises at end of year	$ 3,864	$ 3,795

(a) Included in total expense is $59 million (2016: $51 million) of interest expense of ATB Financial that was paid to the Department for amounts borrowed directly by the Province on behalf of ATB Financial. Also included in the total expense is $45 million (2016: $32 million) of payment in lieu of taxes and $43 million (2016: $48 million) of deposit guarantee fee.

(b) Included in the deposits are ATB Financial wholesale borrowings that include amounts borrowed by the Province on behalf of ATB Financial totaling $2,892 million (2016: $5,073 million), to be repaid as follows: $1,000 million in 2017-18, $499 million in 2018-19, $200 million in 2019-20, $199 million in 2020-21, and $994 million thereafter.

The accumulated unrealized (losses) gains of the government business enterprises are as follows:

	($ millions)	
	2017	**2016**
Opening accumulated unrealized gains	$ 87	$ 98
Change	(118)	(11)
Ending accumulated unrealized (losses)/gains	$ (31)	$ 87

Contractual Obligations

Government business enterprises have the following contractual obligations:

	($ millions) 2017
2017-18	124
2018-19	91
2019-20	49
2020-21	28
2021-22	22
Thereafter	98
	$ 412

In addition, ATB Financial has outstanding loan commitments of $18,716 million (2016: $18,801 million).

Guarantees and Indemnities

ATB Financial, at March 31, 2017, had a potential liability under guarantees and letters of credit amounting to $541 million (2016: $493 million).

Legal Actions

At March 31, 2017, the government business enterprises were involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued cannot be determined.

Of the various legal actions, the government business enterprises are jointly or separately named as a defendant in eighteen (2016: nineteen) legal claims of which the outcome is not determinable. Of the eighteen claims, thirteen (2016: thirteen) have specified amounts totaling approximately $144 million (2016: $150 million) and five (2016: six) claims have no specified amount. One (2016: one) claim totaling less than $1 million (2016: $1 million) is covered by the Alberta Risk Management Fund.

Derivative Contracts

ATB Financial has the following derivatives:

	($ millions) 2017 *Fair Value*	 2016 *Fair Value*
Interest rate derivatives [(a)]	$ 65	$ 195
Foreign currency derivatives	1	(17)
Forward commodity contracts [(b)]	15	13
Cross currency interest rate swaps	33	1
Embedded derivatives	(2)	-
	$ 112	$ 192

[(a)] The exposure to credit risk on the derivatives in a favourable position with a fair value of $451 million (2016: $765 million) is reduced by $246 million resulting from entering into master netting agreements (2016: $282 million) and is reduced by $127 million in collateral agreements (2016: $408 million) with counterparties resulting in a residual credit exposure of $78 million (2016: $75 million) of the derivative assets and $57 million (2016: $252 million) of the derivative liability.

[(b)] Commodity price risk arises when ATB Financial offers deposit or derivative products where the value of the derivative instrument or rate of return on the deposit is linked to changes in the price of the underlying commodity. ATB Financial uses commodity-linked derivatives to fully hedge their associated commodity risk exposure on these products and does not accept any net direct commodity price risk.

EQUITY IN GOVERNMENT BUSINESS ENTERPRISES SCHEDULE 6, CONTINUED

Liability for Pension Obligations

The government business enterprises following IFRS have pension obligations of $145 million (2016: $151 million) comprised of $137 million (2016: $145 million) for employees in PSPP, MEPP and MSRP and $8 million (2016: $6 million) in other pension plans.

LOANS AND ADVANCES SCHEDULE 7

			($ millions)	
	Effective rate %	Maturity Range	2017	2016
Agriculture Financial Services Corporation[a]	3.10	2018 to 2030	$ 2,188	$ 2,129
Alberta Social Housing Corporation [a]	-	-	-	17
Alberta Petroleum Marketing Commission [a]	0.73	2018	330	328
ATB Act subordinated debentures	3.00	2018 to 2022	344	371
Balancing Pool [b]	0.52	2018	232	-
Environmental Protection and Enhancement Fund [c]	-	-	50	150
			$ 3,144	$ 2,995

(a) The effective rate includes the effect of interest rate and currency rate swaps, if any.

(b) The Balancing Pool is a corporation established by the Government of Alberta, under the Electric Utilities Act.

(c) Accountable advance, of which $nil (2016: $100 million) is interest bearing.

LOANS OF ALBERTA CAPITAL FINANCE AUTHORITY SCHEDULE 8

	($ millions)	
	2017	2016
ACFA loans	$ 15,469	$ 15,064

Loans to the municipal and SUCH (schools, universities, colleges and hospitals) sectors on average yield 3.88% per annum (2016: 3.97%).

ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

(a) Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for 66% (2016 – 67%) of all loan assets held by ACFA. This borrower category, excluding Metis settlements, is regulated by the Municipal Government Act, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

(b) Regional airport authorities account for 25% (2016 – 24%) of all loan assets held by ACFA. This borrower category utilizes airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

(c) Educational and health authorities account for the remaining 9% (2016 – 9%) of loan assets, each with terms and conditions specific to their respective loan agreements. As at and for the year ended December 31, 2016, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date.

The loan repayments are as follows:

	($ millions)	
	Principal	**Interest**
Within 1 year	$ 957	$ 572
1 to 3 years	2,498	1,520
over 3 years	12,014	3,830
Total	$ 15,469	$ 5,922

TANGIBLE CAPITAL ASSETS

SCHEDULE 9

	($ millions)			
	2017			
	Equipment	**Computer Hardware and Software**	**Leaseholds**	**Total**
Estimated useful life	10 years	5 years	10 years	
Historical Cost				
Beginning of year	$ 9	$ 182	$ 20	$ 211
Additions	1	13	1	15
Disposals - including write-downs	(1)	-	(1)	(2)
	9	195	20	224
Accumulated Amortization				
Beginning of year	5	46	13	64
Amortization expense	1	20	2	23
Effect of disposals	(1)	2	(3)	(2)
	5	68	12	85
Net book value at March 31, 2017	$ 4	$ 127	$ 8	$ 139
Net book value at March 31, 2016	$ 4	$ 136	$ 7	$ 147

ACCRUED INTEREST AND ACCOUNTS PAYABLE

SCHEDULE 10

	($ millions) 2017	($ millions) 2016
Corporate income tax receipts in abeyance	$ 573	$ 577
Corporate income tax refunds payable	626	973
Accrued interest on debt of the Department and debt of ACFA	401	326
Other	432	374
	$ 2,032	$ 2,250

SPENT DEFERRED CAPITAL CONTRIBUTIONS

SCHEDULE 11

	($ millions) 2017	($ millions) 2016
Opening balance	$ 48	$ 39
Additions	5	11
Recognized to revenue	(5)	(2)
Closing balance	$ 48	$ 48

Financing obtained from the public sector pension plans to acquire tangible capital assets is recognized as spent deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

DEBT

	Debt (a)					
		(in Canadian dollars)				
Fiscal Year of Maturity Ending March 31,	Effective Interest Rate (b)	Canadian Dollar	US Dollar	Other Currencies	2017 Total	2016 Total
				($ millions)		
Floating rate debt						
2017					-	950
2019	0.98%	1,500			1,500	1,500
2021	0.99%	480			480	480
Fixed rate debt						
2017					-	3,431
2018	1.44%	5,424	617		6,041	2,635
2019	3.10%	795			795	786
2020	2.48%	1,818	3,003		4,821	1,818
2021	1.85%	2,972	1,656		4,628	4,628
2022	1.43%	2,911	703	1,065	4,679	790
2018 - 2022 (< 5 years)	1.78%	$ 15,900	$ 5,979	$ 1,065	$ 22,944	$ 17,018
2023-2027 (6-10 yrs)	2.73%	10,555	1,312	193	12,060	7,755
2028-2037 (11-20 yrs)	3.57%	5,963			5,963	5,363
2038-2047 (21-30 yrs)	3.28%	8,360		981	9,341	5,054
Total debt issued at face value	2.50%	$ 40,778	$ 7,291	$ 2,239	$ 50,308	$ 35,190
Unamortized premium (discount)					(229)	(214)
Total amortized cost					**$ 50,079**	**$ 34,976**

(a) Debt includes the following foreign currency denominated debt that is fully hedged to Canadian dollars to eliminate exposure to future fluctuations in exchange rates. Fully hedged foreign currency debt is translated into Canadian dollars at the rate of exchange established by the hedging agreement.

	Debt at PAR		Debt at cost (CAD$)	
Fully Hedged Foreign Currency	Mar 31/17	Mar 31/16	Mar 31/17	Mar 31/16
US dollars	$ 5,600	$ 2,350	$ 7,275	$ 2,966
British pound sterling	£ 650	£ -	1,061	-
Euros	€ 637	€ 202	912	294
Australian dollars	$ 200	$ -	192	-

(b) The effective interest rate is based on the weighted average of debt issues. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount and includes the effects of interest rate and currency swaps.

The consolidated gross debt of the Ministry totaling $52,971 million (2016: $40,049 million) is comprised of debt of the Ministry totaling $50,079 million (2016: $34,976 million) and debt of ATB Financial totaling $2,892 million (2016: $5,073 million) (Schedule 6, footnote (b)).

The total debt servicing cost of the Ministry totaling $952 million (2016: $707 million) is comprised of $701 million (2016: $468 million) for general government, $190 million (2016: $185 million) for ACFA, $2 million (2016: $3 million) for school construction debentures, all reported on the statement of operations, as well as $59 million (2016: $51 million) for ATB Financial for amounts borrowed directly by the Province on behalf of ATB Financial.

DEBT

SCHEDULE 12, CONTINUED

Derivative Financial Instruments

Derivative financial instruments include forward foreign exchange contracts, cross-currency swaps and interest rate swaps, which are used to hedge exposure to various risks associated with debt. The hedge effectiveness is the extent to which the hedge transaction results in offsetting changes in cash flow that the transaction was intended to provide. The effectiveness of a hedge agreement is determined on each payment settle date, when the cash flow matches the initial expectations of the hedge agreement. Associated with these instruments are credit risks that could expose the Ministry to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract.The Ministry minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties. At March 31, 2017, the net fair value of these contracts totaled $(143) million (2016: $(91) million).

PENSION LIABILITY

SCHEDULE 13

The President of Treasury Board, Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). The President of Treasury Board, Minister of Finance is also trustee for the Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2016 year end or March 31, 2017 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

The Ministry accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Pension Plan and Public Service Pension Plan for the Province of Alberta consolidated reporting entity except for government business enterprises that report under IFRS and are required to account directly for participation in the public service pension plans under IFRS.

The Ministry also accounts for the specific commitments made by the Province for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Ministry also accounts for the obligation to the Members of the Legislative Assembly Pension Plan (MLAP).

The following is a summary of the plans for the year ending March 31, 2017:

Pension	Approximate Number of Active	Average Age of Active	Number of Retirees Receiving	Employee Contributions	Employer Contributions	Benefit Payments	Deferred
Plan [a]	Employees	Employees	Benefits		($ millions)		Members
LAPP	158,586	45	62,660	$ 1,303	$ 1,400	$ 1,320	34,180
PSPP	41,848	43	25,837	355	352	496	15,021
MEPP	5,418	48	5,104	77	124	213	1,053
MSRP	1,132	51	1,000	4	4	6	217
Teachers' Pre92	6,297	55	25,407	-	-	469	1,074
UAPP Pre92 [b]	734	61	3,693	14	14	134	N/A
PJMCPP [b]	126	60	158	1	3	8	4
PSMC [b]	1	62	1,742	-	-	50	71
SFPP [b]	4,467	39	2,551	46	50	120	214
MLAP	-	-	109	-	-	4	1

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.

(b) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $11 million, PJMCPP $1 million, PSMC $48 million, and SFPP $6 million.

The liability for the pension obligations is as follows:

	($ millions)		
	2017 Pension Obligation	2017 Pension Provision (Recovery)	2016 Pension Obligation
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan [a]	$ 186	$ (187)	$ 373
Management Employees Pension Plan [b]	-	-	-
Public Service Pension Plan [c]	117	(83)	200
Supplementary Retirement Plan for Public Service Managers [d]	50	34	16
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans [e]	23	8	15
	376	(228)	604
Liability for pension obligations for Province's commitment towards pre-1992			
Teachers' Pension Plan [f]	7,884	(198)	8,082
Public Service Management (Closed Membership) Pension Plan [g]	531	(22)	553
Universities Academic Pension Plan [h]	294	14	280
Special Forces Pension Plan [h]	90	-	90
	8,799	(206)	9,005
Obligations to the Members of the Legislative Assembly [i]	42	-	42
	$ 9,217	$ (434)	$ 9,651

PENSION LIABILITY SCHEDULE 13, CONTINUED

Table A - Liability for pension obligations for the Province as a participating employer

($ in millions)

	Total	Local Authorities Pension Plan	Management Employees Pension Plan (5)	Public Service Pension Plan	Other
Net assets available for benefits (1)	$ 54,724	$ 37,723	$ 4,612	$ 11,911	$ 478
Pension obligation (2)	54,729	38,360	4,210	11,608	551
Pension plan deficit/(surplus)	$ 5	$ 637	$ (402)	$ (303)	$ 73
Employee and non-Provincial employer	(101)	(426)	157	168	-
Unamortized gains (3)	513	37	198	278	-
Timing differences and adjustments (4)	(41)	(62)	47	(26)	-
Pension obligation at March 31, 2017	$ 376	186	-	117	73

(1) These are the net assets reported on the 2016 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2016 financial statements of the pension plans.

(3) Under Public Sector Accounting Standards, gains and losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.

(4) Accounting timing differences from January 1, 2017 to March 31, 2017 for payments, interest expense, and other adjustments.

(5) Currently, the Ministry's share of the Management Employee Pension Plan surplus is $60 million (2016: $11 million), however, there is an underlying valuation allowance of $60 million (2016: $11 million) as there is no expected realization of the surplus at this time.

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 7.39% of pensionable earnings shared equally between employers and employees until December 31, 2028. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by the December 31, 2015 actuarial funding valuation is being funded by special payments currently totaling 10.2% of pensionable earnings shared between employees and employers until December 31, 2016. Thereafter, the special payments will decrease successively to 5.0% until December 31, 2024, and to 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 7.97% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2016 were at 12.80% (2015: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2017 are 7.00% of capped salary for plan members and 17.75% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2017 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

g) The Public Service Management (Closed Membership) Pension Plan provides benefits to former members of the Public Service Management Pension Plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the Plan are paid by the Department.

h) Under the *Public Sector Pension Plans Act*, the Department has a liability for payment of additional contributions under defined benefit pension plans for certain employees of municipalities and post-secondary educational institutions. The plans are the Universities Academic and the Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Department, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Employers and employees fund current service costs.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Department and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The *Act* provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan

PENSION LIABILITY SCHEDULE 13, CONTINUED

was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

Actuarial valuations of the plans are completed at least triennially using the projected benefit method prorated on services. The following, by pension plan is the actuary and date of the latest actuarial valuation.

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2015
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2015
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2015
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Mar. 31, 2014
Public Service Pension Plan	Aon Hewitt	Dec. 31, 2014
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2016
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2014
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2014
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2013
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2017

The liabilities for pension obligations are based upon actuarial extrapolations performed at December 31, 2016 or March 31, 2017 for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the salary escalation rate, inflation rate and discount rate.

The date of actuarial extrapolation and primary economic assumptions used for accounting purposes were:

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2016	3.00	2.00	5.50
Management Employees Pension Plan	Dec. 31, 2016	3.00	2.00	6.00
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2017	3.00	2.00	5.30
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2017	3.00	2.00	4.60
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2016	N/A	2.00	3.80
Public Service Pension Plan	Dec. 31, 2016	3.00	2.00	6.10
Special Forces Pension Plan	Dec. 31, 2016	3.00	2.00	5.90
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2016	3.00	2.00	5.90
Universities Academic Pension Plan	Mar. 31, 2017	3.00	2.00	6.00
Teachers' Pre-1992 Pension Plan	Mar. 31, 2017	3.00	2.00	3.80
Members of the Legislative Assembly Pension Plan	Mar. 31, 2017	N/A	2.00	3.80

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the Department and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the employee group.

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-1992 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

The government business enterprises following IFRS pension obligations are reported in Schedule 6.

OTHER ACCRUED LIABILITIES

SCHEDULE 14

	($ millions)	
	2017	2016
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 11	$ 20
AIMCo employee benefits liability	83	78
Vacation entitlements	10	9
	$ 104	$ 107

RELATED PARTY TRANSACTIONS

SCHEDULE 15

Related parties are those entities consolidated in the Province of Alberta's financial statements. Related parties also include management of the Ministry.

The Ministry is responsible for managing cash transactions of all departments and their funds. As a result, the Ministry engages in transactions with all other ministries in the normal course of operations.

The Ministry and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this Schedule.

The government business enterprises of the Ministry have no related party transactions.

The Ministry had the following transactions with related parties recorded at the amount of consideration agreed upon between the related parties.

RELATED PARTY TRANSACTIONS

($ millions)

	2017	2016
Revenues		
Interest from loans and advances to government entities	$ 73	$ 75
Interest from loans and advances to SUCH sector	57	58
Charges for services	17	18
	$ 147	$ 151
Expenses		
Debt servicing costs - school boards debt	$ 2	$ 3
Transfers	173	162
Cost of services	3	3
	$ 178	$ 168
Assets		
Accrued interest receivable from government entities	$ 15	$ 15
Accrued interest receivable from SUCH sector	12	13
Loans and advances to government entities	2,800	2,623
Loans and advances to SUCH sector	1,435	1,344
	$ 4,262	$ 3,995
Liabilities		
Other accrued liabilities		
Accounts and accrued interest payable	$ 12	$ 6
Future funding of school boards debt	11	20
	$ 23	$ 26

The SUCH sector includes schools, universities, colleges and hospitals.

The Ministry also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements and are mainly allocated to the fiscal planning and financial management and the investment, treasury and risk management programs administered by the Department.

($ millions)

	Revenue		Expense	
	2017	2016	2017	2016
Accommodations	$ -	$ -	$ 8	$ 8
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Legal services	-	-	5	5
Internal audit services	1	1	-	-
	$ 2	$ 2	$ 17	$ 17

Department of Treasury Board and Finance

Financial Statements

Year Ended March 31, 2017

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AUDITOR
GENERAL
Alberta

Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Department of Treasury Board and Finance, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Department of Treasury Board and Finance as at March 31, 2017, and the results of its operations, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 7, 2017

Edmonton, Alberta

Statement of Operations

Year ended March 31, 2017

($ millions)

	2017		2016
	Budget	Actual	Actual
Revenues (Schedule 1)			
Internal government transfers	$ 3,132	$ 4,436	$ 3,440
Income taxes	15,730	14,532	15,552
Other taxes	3,552	3,179	2,834
Transfers from Government of Canada	1,568	1,563	1,772
Investment income	400	410	504
Premiums, fees and licences	65	97	88
Other revenue	5	10	10
	24,452	24,227	24,200
Expenses - Directly Incurred (Note 2, Schedules 14 and 15)			
Program (Schedules 2 and 3)			
Ministry Support Services	32	29	25
Budget Development and Reporting	5	5	4
Fiscal Planning and Economic Analysis	6	5	5
Investment, Treasury and Risk Management	13	10	12
Office of the Controller	3	2	3
Corporate Internal Audit Services	4	3	4
Tax and Revenue Management	34	52	38
Financial Sector Regulation and Policy	87	73	82
Public Service Commission	25	22	19
Gaming	35	43	46
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	220	206	204
Climate Leadership Plan - Consumer Rebates	95	152	-
Teachers' pre-1992 pension liability funding	475	469	465
Pension recovery	(69)	(434)	(623)
Corporate income tax allowance adjustment	15	(142)	7
	980	495	291
Debt servicing			
School construction debentures	2	2	3
General government	943	1,009	750
	945	1,011	753
	1,925	1,506	1,044
Annual Surplus	$ 22,527	$ 22,721	$ 23,156

The accompanying notes and schedules are part of these financial statements.

Statement of Financial Position

As at March 31, 2017

	($ millions) 2017	2016
Financial Assets		
Cash and cash equivalents (Schedule 5)	$ 5,496	$ 1,458
Accounts and accrued interest receivable (Schedule 6)	3,210	2,192
Portfolio investments (Schedule 7)	-	3,617
Loans and advances (Schedule 8)	19,507	20,552
	28,213	27,819
Liabilities		
Accounts and accrued interest payable (Schedule 10)	1,531	1,796
Debt (Schedule 11)	50,735	37,218
Pension liability (Schedule 12)	9,217	9,651
Other accrued liabilities (Schedule 13)	21	29
	61,504	48,694
Net Debt	(33,291)	(20,875)
Non-Financial Assets		
Tangible capital assets (Schedule 9)	14	15
	14	15
Net Liabilities	$ (33,277)	$ (20,860)
Net liabilities at beginning of year	$ (20,860)	$ (10,684)
Annual surplus	22,721	23,156
Net financing provided for general revenues (Notes 2a)	(35,138)	(33,332)
Net liabilities at end of year	$ (33,277)	$ (20,860)

Contractual obligations and contingent liabilities (Notes 4 and 5).

The accompanying notes and schedules are part of these financial statements.

Statement of Change in Net Debt

Year ended March 31, 2017

($ millions)

	2017		2016
	Budget	Actual	Actual
Annual Surplus	$ 22,527	$ 22,721	$ 23,156
Acquisition of tangible capital assets	(5)	(3)	(1)
Amortization of tangible capital assets	2	4	1
Gain sale of tangible capital assets		-	(2)
Proceeds from sale of tangible capital assets		-	5
Net financing provided for general revenues		(35,138)	(33,332)
Increase in net debt		$ (12,416)	$ (10,173)
Net debt at beginning of year		(20,875)	(10,702)
Net debt at end of year		$ (33,291)	$ (20,875)

The accompanying notes and schedules are part of these financial statements.

Statement of Cash Flows

Year ended March 31, 2017

	($ millions) 2017	2016
Operating transactions		
Annual surplus	$ 22,721	$ 23,156
Non-cash items included in net operating results		
Amortization, gains and losses on investments and debt, net	(27)	(59)
Amortization of tangible capital assets (Schedule 2)	4	1
Loss on disposal of capital assets and writedown of inventory	-	5
Pension recovery	(434)	(623)
Corporate income tax allowance adjustment	(142)	7
	22,122	22,487
Decrease/(Increase) in accounts and accrued interest receivable	(876)	240
Increase/(Decrease) in accounts and accrued interest payable	(265)	462
Cash provided by operating transactions	20,981	23,189
Capital transactions		
Acquisition of tangible capital assets (Schedule 9)	(3)	(1)
Proceeds from disposal of tangible capital assets	-	5
Cash applied to capital transactions	(3)	4
Investing transactions		
Disposals of portfolio investments	5,017	3,896
Portfolio investments purchased	(1,356)	(2,722)
Repayments of loans and advances from government entities	18,549	12,556
Loans and advances to government entities	(17,468)	(16,424)
Cash provided by (applied to) investing transactions	4,742	(2,695)
Financing transactions		
Debt issues	43,446	36,862
Debt retirement	(29,981)	(26,197)
Grants for school construction debenture principal repayment (Schedule 3)	(9)	(11)
Net financing provided for general revenues	(35,138)	(33,332)
Cash applied to financing transactions	(21,682)	(22,679)
Increase (decrease) in cash and cash equivalents	4,038	(2,180)
Cash and cash equivalents at beginning of year	1,458	3,638
Cash and cash equivalents at end of year	$ 5,496	$ 1,458

The accompanying notes and schedules are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

NOTE 1 AUTHORITY AND PURPOSE

The Department of Treasury Board and Finance (the Department), which includes the Public Service Commission and Public Agency Secretariat, operates under the authority of the *Government Organization Act*, Chapter G-10, Revised Statutes of Alberta 2000.

The Department's focus is to provide expert economic, financial and fiscal policy advice to government and effective tax and regulatory administration to enhance Alberta's present and future prosperity, to ensure integrity, accountability and social responsibility in Alberta's gaming and liquor industries, and to ensure an efficient, effective and accountable government, with a strong and inclusive public service. Its core businesses are:

- budget development and reporting;
- economics and fiscal policy;
- treasury and risk management;
- government accounting standards; financial management policies; and performance planning and reporting;
- tax policy and revenue administration;
- financial sector regulation and policy;
- responsible liquor and gaming regulation,
- Public Agency Secretariat (PAS) collaborates with departments and public agencies to promote a consistent approach to public agency governance, recruitment and compensation; and
- strategic leadership of human resources management for the Alberta Public Service.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

a) NET FINANCING PROVIDED FOR GENERAL REVENUES

All departments of the Government of Alberta (the Province) operate within the General Revenue Fund. The General Revenue Fund is administered by the President of Treasury Board, Minister of Finance. All cash receipts of departments are deposited into the General Revenue Fund and all cash disbursements made by departments are paid from the General Revenue Fund.

Net financing provided for general revenues is the difference between all cash deposits by other departments and all cash disbursements made on their behalf by the Department.

b) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued these following accounting standards:

• PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)

PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

• PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1,2017)

PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

• PS 3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/ or liabilities, together with related program or operating responsibilities.

• PS 3450 Financial Instruments (effective April 1, 2019)

Adoption of this standard requires corresponding adoption of: PS 2601 Foreign Currency Translation; PS 1201 Financial Statement Presentation; and PS 3041 Portfolio Investments in the same fiscal period. These standards provide guidance on: recognition, measurement and disclosure of financial instruments; standards on how to account for and report transactions that are denominated in a foreign currency; general reporting principles and standards for the disclosure of information in financial statements; and how to account for and report portfolio investments. The Department has not yet adopted this standard and has the option of adopting it in fiscal year 2019-20 or earlier.

Management is currently assessing the impact of these standards on the financial statements.

c) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported using the accrual method of accounting.

Income Taxes

Corporate income tax revenue is recognized when installments are received from taxpayer corporations. A receivable is established for tax assessments that are outstanding. Revenue and tax receivables will be adjusted in the year in which any additional information becomes available from resulting audits, appeals, and court decisions. Corporate income tax refunds payable are accrued based primarily on the prior year's corporate income tax refunds paid on assessments. Corporate income tax receipts from corporations in anticipation of an upward reassessment of Alberta income tax payable are described as corporate income tax receipts in abeyance and recorded as accounts payable. The difference between actual corporate income tax receivable and the estimate of the collectability is recorded as an allowance. The adjustment to the allowance is recorded as an expense. The adjustment may increase or decrease the allowance as tax receivables are revalued in subsequent years based on resulting audits, appeals, and court decisions.

Personal income tax is recognized on an accrual basis based on an economic estimate of the various components of personal income tax for the fiscal year. Gross personal income tax growth for the taxation year is a key component of the estimate for the fiscal year.

The Provincial tax system is predicated on self-assessment where taxpayers are expected to understand the tax laws and comply with them. This has an impact on the completeness

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

of tax revenues when taxpayers fail to comply with tax laws, for example, if they do not report all of their income. The Department has implemented systems and controls in order to detect and correct situations where taxpayers are not complying with the various acts it administers. These systems and controls include performing audits of taxpayer records when determined necessary by Tax and Revenue Administration. However, such procedures cannot identify all sources of unreported income or other cases of non-compliance with tax laws. The Department does not estimate the amount of unreported tax.

Tax Credits

The Scientific Research and Development Tax Credit is administered through the corporate income tax system with the value of the tax credit presented as an expense. Scientific Research and Experimental Development Tax Credits are recognized when a corporate income tax return has been filed and assessed.

Alberta Family Employment Tax Credit is administered by the federal government and delivered under the Alberta/federal Tax Collection Agreement. The credits are paid January 1st and July 1st and are reported as expenditures in the fiscal year they are incurred.

The Alberta Climate Leadership Adjustment Rebate is a refundable tax credit provided to lower and middle income Alberta households to help them adjust to the cost of carbon. This program is delivered by the federal government on Alberta's behalf. The first rebate payments were made January 1, 2017, to coincide with the introduction of Alberta's Carbon Levy, and are reported in the period in which the payments are made to Albertans.

Internal Government Transfers

Internal government transfers are transfers between entities within the government reporting entity where the entity making the transfer does not receive any goods or services directly in return.

Internal Government Transfers - Alberta Lottery Fund

Internal Government transfers include transfers from the Alberta Lottery Fund. The Lottery Fund transferred all revenue to the General Revenue Fund through the Department. The program expenses associated with this revenue are budgeted and expensed by the Ministries responsible for the programs.

Internal Government Transfers - Alberta Heritage Savings Trust Fund

Pursuant to Section 8(2) of the Alberta *Heritage Savings Trust Fund Act*, the net income of the Alberta Heritage Savings Trust Fund, less the amount to be retained for the purpose of inflation-proofing the Alberta Heritage Savings Trust Fund, is transferred to the General Revenue Fund annually.

Internal Government Transfers - Alberta Gaming and Liquor Commission

Pursuant to Section 26(3) of the *Gaming and Liquor Act*, revenue arising from the sale of liquor is transferred to the General Revenue Fund.

Transfers from Government of Canada

Transfers from Government of Canada are recognized as revenue when authorized by federal legislation or federal/provincial agreements, eligibility criteria and stipulations, if any, are met and a reasonable estimate of the amounts can be made. Overpayments related to Canada Social Transfer entitlements and transfers received before revenue recognition criteria have been met are included in accounts payable and accrued liabilities.

Expenses

Directly Incurred

Directly incurred expenses are those costs for which the Department has primary responsibility and accountability, as reflected in the government's budget documents.

In addition to program operating expenses such as salaries, supplies, etc., directly incurred expenses also include:

- Amortization of tangible capital assets.
- Pension costs, which comprise the cost of employer contributions for current service of employees during the year and additional government contributions for service relating to prior years.
- A pension recovery for the change in the pension liability (Schedule 12).
- A provision for the change in the long term disabilities plans liability (Schedule 10).
- A corporate income tax allowance adjustment for the change in the corporate income tax allowance (Schedule 6).
- Grants are recognized when authorized and eligibility criteria are met.
- Debt servicing.

Incurred by Others

Services contributed by other related entities in support of the Department's operations are not recognized and are disclosed in Schedule 14 and allocated to programs in Schedule 15.

Financial Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations.

Financial assets of the department are limited to financial claims, such as advances to and receivables from other organizations, employees and other individuals, as well as cash and cash equivalents and portfolio investments.

Cash and Cash Equivalents

Cash includes deposits in banks and cash in transit. Cash equivalents includes directly held interest bearing securities with terms to maturity of primarily less than three months.

Accounts Receivable and Accrued Interest Receivable

Accounts receivable and accrued interest receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

Portfolio Investments

Portfolio investments are carried at cost. Cost includes amortization of discount or premium using the straight-line method over the life of the investment. Realized gains and losses on disposals of these investments are included in the determination of net operating results for the year. Where there has been a loss in value of an investment that is other than a temporary decline, the investment is written down to recognize the loss. The written down value is deemed to be the new cost. Investments are recorded in the Department's accounts on a trade date basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

The fair value of public fixed-income securities included in portfolio investments are valued at the year-end closing sale price,or the average of the latest bid and ask prices quoted by an independent securities valuation company.

Loans and Advances

Loans and advances are recognized at amortized cost, less any allowance for credit loss on a trade basis. Where there is no reasonable assurance of timely collection of the full amount of principal and interest of a loan, a provision for credit loss is made and the carrying amount of the loan is reduced to its estimated realizable amount.

Liabilities

Liabilities are present liabilities of a government to others arising from past transactions or events, the settlement of which is expected to result in the future sacrifice of economic benefits.

The value of the pension liability and changes therein during the year are based on an actuarial extrapolation of the most recent actuarial valuation. This valuation technique uses the projected benefit method pro-rated on service, and management's best estimate as at the extrapolation date of various economic and non-economic assumptions. Where the Province is a participating employer in the plan, experience gains and losses to the extent of the Province's employer share are amortized over the estimated average remaining service life of employees. Where the Province has a liability for pre-1992 pension obligations any experience gains or losses are recognized in the year incurred.

Debentures included in debt are recorded at the face amount of the issue less unamortized discount, which includes issue expenses and hedging costs. Debt is recorded in the Department's accounts on a trade date basis.

Income or expense on interest rate swaps and currency derivatives used to manage interest rate and foreign currency exposure is recorded as an adjustment to debt servicing costs.

Non-Financial Assets

Non-financial assets are acquired, constructed or developed assets that do not normally provide resources to discharge existing liabilities, but instead:

(a) are normally employed to deliver government services;

(b) may be consumed in the normal course of operations; and

(c) are not for sale in the normal course of operations.

Non-financial assets of the department are limited to tangible capital assets.

Tangible Capital Assets

Tangible capital assets acquired by right are not included. Tangible capital assets of the Department are recognized at historical cost and amortized on a straight-line basis over the estimated useful lives of the assets. The threshold for capitalizing new systems development is $250,000 and the threshold for all other tangible capital assets is $5,000. Amortization is charged only if the tangible capital asset is in use.

Net Debt

Net debt is measured as the difference between the department's financial assets and liabilities.

Foreign Currency

Unhedged monetary items denominated in a foreign currency are translated at the year end rate of exchange. Hedged assets and liabilities denominated in foreign currencies are translated at the rate of exchange established by the terms of the hedging agreement.

Foreign currency transactions are translated into Canadian dollars using the average rate of exchange for the day, except for hedged foreign currency transactions which are translated at the rate of exchange established by the terms of the hedging agreement.

Exchange gains and losses that arise on translation of fixed term unhedged foreign currency denominated monetary items are deferred and amortized over the life of the contract.

Amortization of deferred exchange gains and losses and other exchange differences on unhedged transactions are included in the determination of net operating results for the year.

Derivatives

Derivative contracts are used for hedging purposes. These derivatives are recorded at cost plus accrued interest. The estimated amounts receivable and payable from derivative contracts are included in the statement of financial position.

Gains and losses from these derivatives are recognized in the same period as the gains and losses of the hedged assets and liabilities. Income and expense from derivatives are included in investment income or debt servicing costs.

Measurement Uncertainty

Estimates are used in accruing revenues and expenses in circumstances where the actual accrued revenues and expenses are unknown at the time the financial statements are prepared.

Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material to these financial statements exists in the accrual of personal and corporate income taxes, provisions for pensions, and provision for the Long Term Disability Income Continuance Plans. The nature of the uncertainty in these items arises from several factors such as the effect on accrued income taxes of the verification of taxable income, the effect on accrued pension obligations and Long Term Disability Income Continuance Plans of actual experience compared to assumptions.

Personal income tax revenue, totaling $10,763 million (2016: $11,357 million), see Schedule 1, is subject to measurement uncertainty due primarily to the use of economic estimates of personal income growth. Personal income growth is inherently difficult to estimate due to subsequent revisions to personal income data. The estimate of primary household income growth used in determining personal income tax for the current fiscal year is -4.5% for 2016 calendar year (0.5% for 2015) and 1.8% for 2017 calendar year (-1.2% for 2016). Based on historical data, there is an uncertainty of plus or minus $510 million (2016: $560 million) in the personal income tax revenue estimate.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Corporate income tax revenue, totaling $3,692 million (2016: $4,143 million), see Schedule 1, and corporate income tax refunds of $626 million (2016: $973 million) per Schedule 10, are subject to measurement uncertainty due primarily to the timing differences between tax installments collected and future tax assessments, along with the estimate for the corporate income tax allowance.

The pension liability of $9,217 million (2016: $9,651 million), see Schedule 12, is subject to measurement uncertainty because a pension plan's actual experience may differ significantly from assumptions used in the calculation of the pension obligations.

The Long Term Disability Income Continuance Plans' accrued liability of $nil (2016: $nil), see Schedule 10, is subject to measurement uncertainty because the actual experience may differ significantly from assumptions used in the calculation.

While best estimates have been used for reporting items subject to measurement uncertainty, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

NOTE 3 RISK MANAGEMENT

a) DEBT MANAGEMENT

The objective of the Department's debt management activity is to raise funding for the Province and its agencies in a cost-effective manner, while ensuring that borrowed funds can be serviced and repaid as scheduled.

The Department's debt management goals include: ensuring sufficient liquidity to meet the Province's financial commitments and withstand market disruptions, providing stable and low-cost funding for the Province, maintaining access to both domestic and global debt markets to provide financing and liquidity for the Province and strategically structuring the debt portfolio to allow for prudent management of maturities and refinancing.

Debt of provincial corporations and regulated funds is managed separately in relation to their stated requirements and respective authorities.

In order to achieve this objective, the Department manages the following risks within approved policy guidelines:

- Refinancing risk is the risk that debt will have to be rolled over at an unusually high cost, or in extreme cases, cannot be rolled over at all.
- Interest rate exposure risk is the risk that debt servicing costs will increase as interest rates increase due to changes in floating interest rate debt, financing and refinancing of debt at long term interest rates.
- Foreign currency risk is the risk of increased debt servicing costs or larger refinancing requirements due to unfavourable movements in foreign currency markets.
- Liquidity risk is the risk that the Province will have insufficient cash to meet its financial commitments. This refers to a disruption in which funds cannot be raised in capital markets due to external forces.
- Credit risk is the risk of loss on invested funds in which an issuer or investment counterparty does not meet or defaults on its obligations.

- Operational risk is the risk that results from internal human and systems errors or inadequate processes and controls.
- Settlement risk is the risk that arises from non-simultaneous payment exchanges (late or missed payments).

b) ASSET MANAGEMENT

Cash and cash equivalents are used to repay debt as it matures, to provide funding for the capital and fiscal plans, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters and other unforeseen cash requirements.

NOTE 4 CONTRACTUAL OBLIGATIONS

Contractual obligations are obligations of the Department to others that will become liabilities in the future when the terms of those contracts or agreements are met.

	($ thousands) 2017	2016
Obligations under Operating Leases, Contracts and Programs	$329,074	$217,821

Estimated payment requirements for each of the next five years and thereafter are as follows:

Obligations under Operating Leases, Contracts and Programs

	($ thousands) Total
2017-18	46,563
2018-19	38,732
2019-20	37,765
2020-21	35,877
2021-22	34,137
Thereafter	136,000
	$329,074

NOTE 5 CONTINGENT LIABILITIES

a) GUARANTEES AND INDEMNITIES

The Province ensures the debt of Alberta Capital Finance Authority of $2,234 million (2016: $2,834 million) and Alberta Social Housing Corporation of $59 million (2016: $59 million) that is held external to the Government of Alberta would be repaid.

The Credit Union Deposit Guarantee Corporation, operating under the authority of the *Credit Union Act* guarantees the repayment of all deposits with Alberta credit unions, including accrued interest. The *Credit Union Act* provides that the Department will ensure this obligation of the Corporation is carried out. At March 31, 2017 credit unions in Alberta held deposits totaling $21,590 million (2016: $20,671 million). Substantial assets are available from credit unions to safeguard the Department from risk of loss from its potential obligation under the Act.

The Province ensures the repayment of all deposits without limit, including accrued interest, for ATB Financial. The Department assesses an annual deposit guarantee fee payable of $43 million (2016: $48 million) by ATB Financial. Payments under the guarantee are

NOTE 5 CONTINGENT LIABILITIES CONTINUED

under authority of a supply vote. At March 31, 2017, ATB Financial had deposits totalling $36,820 million (2016: $35,910 million).

The Province, through the Department and Agriculture and Forestry, provide guarantees of $64 million (2016: $55 million) to feeder associations.

b) LEGAL ACTIONS

At March 31, 2017, the Department was involved in various legal actions. Accruals have been made in specific instances where it is probable that losses will be incurred which can be reasonably estimated. The resulting loss, if any, from claims in excess of the amounts accrued, cannot be reasonably estimated. Any losses arising from the settlement will be treated as a current year expense.

Of the various legal actions, at March 31, 2017, the Department is jointly or separately named as a defendant in twelve (2016: sixteen) legal claims of which the outcome is not determinable. Of the twelve claims, nine (2016: nine) have specified amounts totaling approximately $87 million (2016: $85 million) and three (2016: seven) claims have no specified amount. Three (2016: four) claims totaling $32 million (2016: $33 million) are covered by the Alberta Risk Management Fund.

Payments under guarantees are a statutory charge on the Department.

In addition, at March 31, 2017, some taxes assessed were being appealed. The resulting loss, if any, cannot be reasonably estimated.

NOTE 6 TRUST AND OTHER FUNDS UNDER ADMINISTRATION

The Department administers trust and other funds that are regulated funds consisting of public money over which the Legislature has no power of appropriation. Because the Department has no equity in the funds and administers them for the purpose of various trusts, they are not included in the Department's financial statements.

As at March 31, 2017, the fair value of trust and other funds under administration were as follows:

	($ millions)	
	2017	2016
Local Authorities Pension Plan Fund	$ 39,289	$ 34,420
Public Service Pension Plan Fund	12,381	10,881
Management Employees Pension Plan Fund	4,756	4,258
Special Forces Pension Plan Fund	2,782	2,475
Other pension plan funds and Department trust funds	696	617
Long term Disability Income Plan, Bargaining Unit	276	255
Long term Disability Income Plan, Management, Opted Out and Excluded	72	71
Group Life Insurance Plan, Bargaining Unit	4	4
Group Life Insurance Plan, Management, Opted Out and Excluded	33	29
Government of Alberta Dental Plan Trust	14	13
Government Employees' Group Extended Medical Benefits and Prescription Drugs Plan Trust	34	34
	$ 60,337	$ 53,057

NOTE 7 DEFINED BENEFIT PLANS

The Department jointly sponsors and participates in three multi-employer pension plans: Management Employees Pension Plan, the Public Service Pension Plan and the Supplementary Retirement Plan for Public Service Managers. The expense to the Department for its employees in these plans is equivalent to the annual contributions of $11 million for the year ended March 31, 2017 (2016: $11 million).

At December 31, 2016, the Management Employees Pension Plan reported a surplus of $402 million (2015: $299 million), Public Service Pension Plan reported a surplus of $303 million (2015: deficiency of $133 million) and Supplementary Retirement Plan for Public Service Managers reported a deficiency of $50 million (2015: $16 million).

The Department also participates in two multi-employer Long Term Disability Income Continuance Plans. At March 31, 2017, the Bargaining Unit Plan reported a surplus of $102 million (2016: $83 million) and the Management, Opted Out and Excluded Plan reported a surplus of $31 million (2016: $29 million). The expense for these two plans is limited to the employer's annual contributions for the year.

Long Term Disability Income Continuance Plans

The Department administers the Long Term Disability Income Continuance Plans. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

For the Bargaining Unit plan, effective June 21, 2015, the employers contribute at a rate of 1.35% of insurable salary. Long term disability benefits are funded equally by the employer and employees of this plan. At March 31, 2017, the Bargaining Unit Plan reported an actuarial surplus of $102 million (2016: $83 million).

For the Management, Opted Out and Excluded plan, effective June 21, 2015, the employers contribute at a rate of 0.60% of insurable salary. At March 31, 2017 the Management, Opted Out and Excluded plan reported an actuarial surplus of $31 million (2016: $29 million). Long term disability benefits are funded by the employers of this Plan.

At March 31, 2017, the Government of Alberta's share of the estimated accrued benefit liability for these two plans is $nil (2016: $nil). This amount is actuarially determined as the cost of the employee benefits earned net of employer's contributions, interest expense on the accrued benefit obligation, expected return on the plan assets and amortization of deferred amounts using management's best estimates and actuarial assumptions. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Group Life Insurance Plans

The Department also administers the Group Life Insurance Plans on behalf of the Government of Alberta. These plans are defined benefit plans to which participating employers contribute on a defined contribution basis.

The Basic Group Life Insurance and Accidental Death and Dismemberment Insurance are funded two-thirds by the employers and one-third by employees for the Bargaining Unit plan and the Management, Opted Out and Excluded plan. All additional coverage is optional and funded by the employees for both plans.

At March 31, 2017, the Bargaining Unit plan reported net assets of $4 million (2016: $4 million) and the Management, Opted Out and Excluded plan reported net assets of $33 million (2016: $29 million). These amounts currently subsidize claim costs and stabilize premium

NOTE 7 DEFINED BENEFIT PLANS CONTINUED

rates for the plans. Management produced estimates based on available March 2016 data, which was reviewed by the actuary for reasonableness. The department, together with other participating departments, records their share of employer contributions as expenses in their respective financial statements.

Dental and Extended Medical Benefits and Prescription Drug Plan Trusts

Boards of Trustees administer the Group Dental and Extended Medical Benefits and Prescription Drug Plan Trusts on behalf of the employees of Government of Alberta. These plans are defined benefit plans to which the employer contributes on a defined contribution basis.

Premium rates are recommended by the trustees to the Government of Alberta. All additional coverage for the participating employees is optional and funded by the employees.

At December 31, 2016, the Government of Alberta Dental Plan Trust reported net assets of $14 million (2015: $13 million) and the Government Employees' Group Extended Medical Benefits and Prescription Drug Plan Trust reported net assets of $34 million (2015: $34 million). The trusts receive contributions from participating employers. The employer withholds contributions from employees and remits both employee and employer contributions to the Trusts. The department, together with the participating departments, records their share of employer contributions as expenses in their respective financial statements.

Public Service Health Spending Account Plan

The Department also administers the Public Service Health Spending Account Plan on behalf of the Government of Alberta. The Plan came into effect April 1, 2012. The Plan provides a non-taxable employee benefit in the form of an annual credit. Any unused credits will be carried forward for one fiscal year after the year in which the credits were allocated.

Contributions are funded by the employer at specified contributions rates per employee. The rates in effect April 1, 2016 are $950 per management, opted out and excluded employee and $750 per bargaining unit employee.

At March 31, 2017, the Public Service Health Spending Account Plan reported net assets of $428,000 (2016: $442,402). The Plan is designed such that contributions are sufficient to cover claims and expenses each plan year.

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

Schedules to the Financial Statements

(All dollar amounts in millions, unless otherwise stated)

REVENUES

SCHEDULE 1

	($ millions)		
	2017		**2016**
	Budget	**Actual**	**Actual**
Internal government transfers			
Transfer from Alberta Heritage Savings Trust Fund	$ 812	$ 2,151	$ 1,029
Transfer from Alberta Gaming and Liquor Commission	869	855	856
Transfer from Alberta Lottery Fund	1,451	1,430	1,555
	3,132	4,436	3,440
Income taxes			
Personal income tax	11,405	10,763	11,357
Corporate income tax	4,325	3,692	4,143
Interest and penalties on corporate income tax	-	77	52
	15,730	14,532	15,552
Other taxes			
Tobacco tax	1,139	953	980
Fuel tax	1,469	1,344	1,370
Insurance tax	583	548	397
Carbon levy	274	250	-
Tourism levy	80	77	80
Special broker tax	7	6	6
Interest and penalties on other tax	-	1	1
	3,552	3,179	2,834
Transfers from Government of Canada			
Canada Social Transfer	1,563	1,558	1,516
Fiscal Stabilization Program	-	-	251
Unconditional Grant	5	5	5
	1,568	1,563	1,772
Investment income	400	410	504
Premiums, fees and licences			
ATB Financial payment in lieu of taxes	9	45	32
ATB Financial deposit guarantee fees	50	43	48
Other	6	9	8
	65	97	88
Other revenue	5	10	10
	$ 24,452	$ 24,227	$ 24,200

EXPENSES – DIRECTLY INCURRED DETAILED BY OBJECT

SCHEDULE 2

($ millions)

	2017		2016
	Budget	Actual	Actual
Salaries, wages and employee benefits	$ 89	$ 83	$ 78
Supplies and services	26	15	17
Supplies and services from Support Service Arrangements with Related Parties (1)	2	2	3
Grants	362	432	270
Financial transactions and other	1	1	1
Amortization of tangible capital assets	2	4	1
Pension liability funding	79	67	75
Corporate income tax allowance adjustment	15	(142)	7
Teachers' Pre-1992 pension liability funding	475	469	465
Debt servicing costs	943	1,009	750
Pension recovery	(69)	(434)	(623)
	$ 1,925	$ 1,506	$ 1,044

(1) The Department receives financial and administrative services from the Department of Service Alberta.

LAPSE / ENCUMBRANCE

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Voted Actuals (4)	Unexpended (Over Expended)
Operational Expenses						
1. Ministry Support Services						
1.1 Minister's Office	$ 881	$ -	$ -	$ 881	$ 787	$ 94
1.2 Deputy Minister's Office	729	-	-	729	826	(97)
1.3 Strategic and Business Services	25,627	215	-	25,842	22,374	3,468
1.4 Communications	1,305	-	-	1,305	1,251	54
	28,542	215	-	28,757	25,238	3,519
2. Budget Development and Reporting	5,289	-	-	5,289	4,467	822
3. Fiscal Planning and Economic Analysis	5,778	-	-	5,778	5,255	523
4. Investment, Treasury and Risk Management						
4.1 Treasury Management	11,627	-	-	11,627	7,125	4,502
4.2 Risk Management and Insurance	1,797	-	-	1,797	1,795	2
	13,424	-	-	13,424	8,920	4,504
5. Office of the Controller	2,826	-	-	2,826	2,381	445
6. Corporate Internal Audit Services	3,908	-	-	3,908	3,276	632
7. Tax and Revenue Management	23,924	838	-	24,762	22,453	2,309
8. Financial Sector Regulation and Policy						
8.1 Financial Sector Regulation and Policy	5,969	-	-	5,969	4,842	1,127
8.2 Automobile Insurance Rate Board	1,500	-	-	1,500	1,184	316
	7,469	-	-	7,469	6,026	1,443
9. Public Service Commission						
9.1 Office of the Public Service Commissioner	663	-	-	663	662	1
9.2 Public Service Commission Programs	22,254	-	-	22,254	21,833	421
	22,917	-	-	22,917	22,495	422
10 Gaming						
10.1 Gaming Research	1,600	-	-	1,600	1,506	94
10.2 Horse Racing and Breeding Renewal Program	27,292	-	-	27,292	35,026	(7,734)
10.3 Bingo Associations	6,200	-	-	6,200	6,294	(94)
	35,092	-	-	35,092	42,826	(7,734)
Debt Servicing						
11 School Construction Debentures						
11.1 School Construction Debenture Interest Payment	1,798	-	-	1,798	1,798	-
Total	150,967	1,053	-	152,020	145,135	6,885
Lapse/(Encumbrance)						6,885

($ thousands)

	Voted Estimates (1)	Supplementary Estimate (2)	Adjustments (3)	Adjusted Voted Estimate	Actuals (4)	Unexpended (Over Expended)
Capital Plan Spending						
1.3 Strategic and Business Services	$ 2,478	$ 800	$ 2,000	$ 5,278	$ 2,809	$ 2,469
Total	2,478	800	2,000	5,278	2,809	2,469
Lapse/(Encumbrance)						2,469
Financial Transactions Vote by Program						
11.2 Grants for school construction debenture principal repayment	8,648	-	-	8,648	8,648	-
Total	$ 8,648	$ -	$ -	$ 8,648	$ 8,648	$ -
Lapse/(Encumbrance)						$ -

(1) As per "Capital Vote by Program" and "Financial Transactions Vote by Program" on page 248-249 of the 2016-17 Government Estimates.

(2) There were no supplementary estimates.

(3) Adjustments include encumbrances, capital carry forward amounts, conversions from operating to capital and credit or recovery increases approved by Treasury Board and credit or recovery shortfalls. An encumbrance is incurred when, on a vote by vote basis, the total of actual disbursements in the prior year exceed the total adjusted estimate. All calculated encumbrances from the prior year are reflected as an adjustment to reduce the corresponding Voted Estimate in the current year.

(4) Actuals exclude non-voted amounts such as amortization and valuation adjustments.

SALARY AND BENEFITS DISCLOSURE

SCHEDULE 4

($ thousands)

	2017				2016
	Base Salary [a]	Other Cash Benefits [b]	Other Non-Cash Benefits [c]	Total	Total
Treasury Board and Finance					
Deputy Minister of Treasury Board and Finance [e][g]	$ 310	$ 7	$ 76	$ 393	358
Deputy Minister, Public Agency Secretariat [d][f]	177	-	44	221	-
Senior Assistant Deputy Minister [d][g]	208	6	54	268	63
Chief Advisor on Negotiations [e][h]	210	8	55	273	4
Controller [g]	224	-	59	283	282
Chief Internal Auditor [g]	190	-	48	238	254
Assistant Deputy Minister, Budget Development and Reporting [g]	194	-	48	242	252
Assistant Deputy Minister, Financial Sector Regulation and Policy	174	23	46	243	242
Assistant Deputy Minister, Fiscal Planning & Economic Analysis	166	-	43	209	240
Assistant Deputy Minister, Strategic & Business Services	183	-	46	229	230
Assistant Deputy Minister, Tax and Revenue Administration	200	-	8	208	218
Assistant Deputy Minister, Treasury and Risk Management	220	-	56	276	295
Assistant Deputy Minister, Public Agency Secretariat [f]	88	-	23	111	-
Public Service Commission					
Deputy Minister of the Public Service Commission[e]	287	8	90	385	370
Assistant Deputy Minister, Labour & Employment Practices	201	-	54	255	256
Senior Assistant Deputy Minister, Leadership & Talent Development	225	-	58	283	254
Assistant Deputy Minister, Strategic Services and Human Resource Transformation [i]	175	-	48	223	219

[a] Base salary includes regular salary and earnings such as acting pay.

[b] Other cash benefits include vacation payouts and lump sum payments. There were no bonuses paid in 2017.

[c] Other non-cash benefits include the government's share of all employee benefits and contributions or payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.

[d] Automobile provided, no dollar amount included in other non-cash benefits.

[e] The Other Cash Benefits includes modifier in lieu of car.

[f] This position was created on September 6, 2016.

[g] The position was occupied by two individuals at different times during the year.

[h] This position was created on March 21, 2016.

[i] The position was occupied by three individuals at different times during the year.

CASH AND CASH EQUIVALENTS

SCHEDULE 5

	($ millions) 2017	($ millions) 2016
Cash	$ (470)	$ (146)
Cash equivalents	5,966	1,604
	$ 5,496	$ 1,458

At March 31, 2017, deposits in banks had a time-weighted return of 0.9% (2016: 0.8%) per annum and securities have an average effective yield of 0.7% (2016: 0.8%) per annum.

ACCOUNTS AND ACCRUED INTEREST RECEIVABLE

SCHEDULE 6

	($ millions) 2017	($ millions) 2016
Corporate income tax[a]	$ 649	$ 792
Personal income tax	-	424
Interest and penalties receivable on taxes[a]	259	321
Proceeds from debt issuance	690	-
Alberta Gaming and Liquor Commission	323	305
Alberta Lottery Fund	44	35
Receivable from the Alberta Heritage Savings Trust Fund	851	229
Accrued interest receivable	100	109
ATB Financial	88	80
Insurance corporations tax	148	104
Carbon levy	108	-
Fuel tax	107	112
Tobacco tax	1	9
Alberta tourism levy	8	8
Other	47	36
	3,423	2,564
Less corporate income tax allowance	(213)	(371)
Less allowance for other doubtful accounts	-	(1)
	$ 3,210	$ 2,192

(a) Corporate income tax receivable including interests and penalties aging is as follows:

	2017	2016
Less than one year	$ 336	$ 327
1-2 years	183	309
2-3 years	121	116
3-4 years	90	65
4-5 years	59	51
Over 5 years	119	245
Total	$ 908	$ 1,113

At March 31, 2017, 865 (2016: 898) corporate income tax files totaling $614 million (2016: $793 million) were under objection/dispute.

PORTFOLIO INVESTMENTS

SCHEDULE 7

($ millions)

	2017		2016	
	Book Value	Fair Value	Book Value	Fair Value
Fixed-income securities				
Corporate	$ -	$ -	$ 1,323	$ 1,310
Provincial, direct and guaranteed	-	-	613	608
Government of Canada, direct and guaranteed	-	-	1,609	1,598
Municipal	-	-	72	72
	$ -	$ -	$ 3,617	$ 3,588

The Department's portfolio investments were liquidated in the current year. The Department's fixed-income securities were held to repay debt as it matures, to provide funding for the capital plan, and to help protect operating and capital spending from short-term declines in revenue and the costs of emergencies, and disasters.

LOANS AND ADVANCES

SCHEDULE 8

($ millions)

	Effective rate (%)	Maturity Range	2017	2016
Alberta Capital Finance Authority [a]	2.00	2018 to 2044	$ 13,400	$ 12,412
ATB Financial [a]	1.95	2018 to 2027	2,893	5,073
Agriculture Financial Services Corporation [a]	3.10	2018 to 2030	2,188	2,129
Alberta Petroleum Marketing Commission [a]	0.73	2018	330	328
Alberta Social Housing Corporation [a]	-	-	-	16
ATB Act subordinated debentures	3.00	2018 to 2022	344	371
Balancing Pool [b]	0.52	2018	232	-
Alberta Investment Management Corporation [c]	0.56	-	67	70
Environmental Protection and Enhancement Fund [d]	-	-	50	150
Other	-	-	3	3
			$ 19,507	$ 20,552

(a) The Department borrows money and loans it to various government entities with the exact same repayment terms and interest rates. The effective rate includes the effect of interest rate and currency rate swaps. Included in loans receivable is US$1,200 million fully hedged to CAD$1,400 million; AUD$125 million fully hedged to CAD$117 million; Euro €225 million fully hedged to CAD$326 million; British Pound £650 million fully hedged to CAD$1,061 million.

(b) The Balancing Pool is a corporation established by the Government of Alberta, under the Electric Utilities Act.

(c) Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the advance is a revolving demand credit facility up to a maximum of $70 million. The advance is repayable with six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.56% (2016: 0.55%).

(d) An accountable advance, of which $nil (2016: $100 million) is interest bearing.

TANGIBLE CAPITAL ASSETS

SCHEDULE 9

	2017		
	Computer Hardware & Software	**Equipment**	**Total**
Estimated useful life	5 years	10 years	
Historical Cost			
Beginning of year	$ 32	$ -	$ 32
Additions	3	-	3
Disposals - including write-downs			
	35	-	35
Accumulated Amortization			
Beginning of year	18	(1)	17
Amortization expense	3	1	4
Effect of disposals			
	21	-	21
Net book value at March 31, 2017	$ 14	$ -	$ 14
Net book value at March 31, 2016	$ 14	$ 1	$ 15

ACCOUNTS AND ACCRUED INTEREST PAYABLE

SCHEDULE 10

	($ millions)	
	2017	**2016**
Corporate income tax receipts in abeyance	$ 571	$ 577
Corporate income tax refunds payable	626	973
Accrued interest on debt	315	225
Other	19	21
	$ 1,531	$ 1,796

The Department has an obligation to recognize the Government of Alberta's share in the liability for the Long Term Disability Income Continuance Plans. The share is $nil (2016: $nil).

DEBT

SCHEDULE 11

Fiscal Year of Maturity Ending March 31,	Effective Interest Rate (b)	Debt (a) (in Canadian dollars) Canadian Dollar	US Dollar	Other Currencies	2017 Total	2016 Total
				($ millions)		
Floating rate debt						
2017					-	1,350
2019	0.98%	1,500			1,500	1,500
2021	0.99%	480			480	480
Fixed rate debt						
2017					-	5,316
2018	1.13%	5,724	617		6,341	2,936
2019	2.35%	1,195			1,195	1,186
2020	2.46%	2,018	3,003		5,021	2,018
2021	1.69%	2,950	1,656		4,606	4,606
2022	1.48%	2,911	703	1,065	4,679	790
2018-22 (< 5 years)	1.64%	$ 16,778	$ 5,979	$ 1,065	$ 23,822	$ 20,182
2023-27 (6-10 yrs)	2.53%	10,657	1,312	193	12,162	7,157
2028-37 (11-20 yrs)	3.50%	5,647			5,647	5,047
2038-47 (21-30 yrs)	3.28%	8,360		981	9,341	5,054
Total debt issued at face value	2.36%	$ 41,442	$ 7,291	$ 2,239	$ 50,972	$ 37,440
Unamortized premium (discount)					(237)	(222)
Total amortized cost					**$ 50,735**	**$ 37,218**

(a) Debt includes the following foreign currency denominated debt that is fully hedged to Canadian dollars to eliminate exposure to future fluctuations in exchange rates. Fully hedged foreign currency debt is translated into Canadian dollars at the rate of exchange established by the hedging agreement.

Fully Hedged Foreign Currency	Debt at PAR Mar 31/17	Debt at PAR Mar 31/16	Debt at cost (CAD$) Mar 31/17	Debt at cost (CAD$) Mar 31/16
US dollars	$ 5,600	$ 3,050	$ 7,275	$ 3,900
British pound sterling	£ 650	£ -	1,061	-
Euros	€ 637	€ 202	912	294
Australian dollars	$ 200	$ -	192	-

(b) The effective interest rate is based on the weighted average of debt issues. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount and includes the effects of interest rate and currency swaps.

Derivative Financial Instruments

Derivative financial instruments include forward foreign exchange contracts, cross-currency swaps and interest rate swaps, which are used to hedge exposure to various risks associated with debt. The hedge effectiveness is the extent to which the hedge transaction results in offsetting changes in cash flow that the transaction was intended to provide. The effectiveness of a hedge agreement is determined on each payment settle date, when the cash flow matches the initial expectations of the hedge agreement. Associated with these instruments are credit risks that could expose the Department to potential losses. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. The Department minimizes its credit risk associated with these contracts by dealing with only credit worthy counterparties. At March 31, 2017, the net fair value of these contracts totaled $(143) million (2016: $(91) million).

PENSION LIABILITY

SCHEDULE 12

The President of Treasury Board, Minister of Finance is trustee for the following pension plans under the *Public Sector Pension Plans Act*: Local Authorities Pension Plan (LAPP), Management Employees Pension Plan (MEPP), Public Service Pension Plan (PSPP), Special Forces Pension Plan (SFPP), and the Public Service Management (Closed Membership) Pension Plan (PSMC). As well the President of Treasury Board, Minister of Finance is trustee for the Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans (PJMCPP) under the *Provincial Court Act* and the Supplementary Retirement Plan for Public Service Managers (MSRP) under the Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/99). All of these pension plans are open with the exception of PSMC. Financial statements for all of these pension plans as of their December 31, 2016 year end or March 31, 2017 year end are reported as supplementary information in the Ministry of Treasury Board and Finance Annual Report. All of the plans, except PJMCPP, are multi-employer plans.

The Department accounts for the liabilities for pension obligations as a participating employer for former and current employees in Local Authorities Pension Plan, Management Employees Pension Plan, Supplementary Retirement Plan for Public Service Managers, Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans and Public Service Pension Plan for the Province of Alberta consolidated reporting entity except for government business enterprises that report under International Financial Reporting Standards (IFRS) and are required to account directly for participation in the public service pension plans under IFRS.

The Department also accounts for the specific commitments made by the Province for pre-1992 pension obligations to the Teachers' Pension Plan, Public Service Management (Closed Membership) Pension Plan, Universities Academic Pension Plan and the Special Forces Pension Plan. In 1992 there was pension plan reform resulting in pre and post 92 arrangements for several pension plans.

The Department also accounts for the obligation to the Members of the Legislative Assembly Pension Plan (MLAP).

The following is a summary of the plans for the year ended March 31, 2017:

Pension Plan[a]	Approximate Number of Active Employees	Average Age of Active Employees	Number of Retirees Receiving Benefits	Employee Contributions ($ millions)	Employer Contributions ($ millions)	Benefit Payments ($ millions)	Deferred Members
LAPP	158,586	45	62,660	$ 1,303	$ 1,400	$ 1,320	34,180
PSPP	41,848	43	25,837	355	352	496	15,021
MEPP	5,418	48	5,104	77	124	213	1,053
MSRP	1,132	51	1,000	4	4	6	217
Teachers' Pre92	6,297	55	25,407	-	-	469	1,074
UAPP Pre92[b]	734	61	3,693	14	14	134	N/A
PJMCPP[b]	126	60	158	1	3	8	4
PSMC[b]	1	62	1,742	-	-	50	71
SFPP[b]	4,467	39	2,551	46	50	120	214
MLAP	-	-	109	-	-	4	1

(a) The plans provide a defined benefit retirement income based on a formula for each plan that considers final average years of salary, length of service and a percentage ranging from 1.4% to 2% per year of service.

(b) These four plans also received during the year contributions, primarily related to pre-1992 commitments, from the Province of Alberta as follows: UAPP Pre92 $11 million, PJMCPP $1 million, PSMC $48 million, and SFPP $6 million.

The liability for the pension obligations are as follows:

	($ millions) 2017 Pension Obligation	2017 Pension Provision (Recovery)	2016 Pension Obligation
Liability for pension obligations for the Province as a participating employer (Table A)			
Local Authorities Pension Plan[a]	$ 186	$ (187)	$ 373
Management Employees Pension Plan[b]	-	-	-
Public Service Pension Plan[c]	117	(83)	200
Supplementary Retirement Plan for Public Service Managers[d]	50	34	16
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans[e]	23	8	15
	376	(228)	604
Liability for the Province's commitment towards pre-1992 pension obligations			
Teachers' Pension Plan[f]	7,884	(198)	8,082
Public Service Management (Closed Membership) Pension Plan[g]	531	(22)	553
Universities Academic Pension Plan[h]	294	14	280
Special Forces Pension Plan[h]	90	-	90
	8,799	(206)	9,005
Obligations to the Members of the Legislative Assembly[i]	42	-	42
	$ 9,217	$ (434)	$ 9,651

PENSION LIABILITY SCHEDULE 12, CONTINUED

Table A - Liability for pension obligations for the Province as a participating employer

($ in millions)

	Total	Local Authorities Pension Plan	Management Employees Pension Plan (5)	Public Service Pension Plan	Other
Net assets available for benefits (1)	$ 54,724	$ 37,723	$ 4,612	$ 11,911	$ 478
Pension obligation (2)	54,729	38,360	4,210	11,608	551
Pension plan deficit/(surplus)	$ 5	$ 637	$ (402)	$ (303)	$ 73
Employee and non-Provincial employer	(101)	(426)	157	168	-
Unamortized gains (3)	513	37	198	278	-
Timing differences and adjustments (4)	(41)	(62)	47	(26)	-
Pension obligation at March 31, 2017	$ 376	186	-	117	73

(1) These are the net assets reported on the 2016 financial statements of the pension plan.

(2) This is the pension obligation reported on the 2016 financial statements of the pension plans.

(3) Under Public Sector Accounting Standards, gains or losses are amortized over the employee average remaining service life of each plan, which range from eight to eleven years.

(4) Accounting timing differences from January 1, 2017 to March 31, 2017 for payments and interest expense.

(5) Currently, the Department's share of the Management Employee Pension Plan surplus is $60 million (2016: $11 million), however, there is an underlying valuation allowance of $60 million (2016: $11 million) as there is no expected realization of the surplus at this time.

The following provides a description of each pension obligation.

a) The Local Authorities Pension Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, Alberta Health Services, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by actuarial funding valuations are expected to be funded by special payments currently totaling 7.39% of pensionable earnings shared equally between employers and employees until December 31, 2028. Current services costs are funded by employers and employees.

b) The Management Employees Pension Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by the December 31, 2015 actuarial funding valuation is being funded by special payments currently totaling 10.2% of pensionable earnings shared between employees and employers until December 31, 2016. Thereafter, the special payments will decrease successively to 5.0% until December 31, 2024, and to 2.9% until December 31, 2027. Current services costs are funded by employers and employees.

c) The Public Service Pension Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies. In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiencies as determined by an actuarial funding valuation are expected to be funded by special payments currently totaling 7.97% of pensionable earnings shared equally between employees and employers until December 31, 2026. Current services costs are funded by employers and employees.

d) The Supplementary Retirement Plan is a contributory defined benefit pension plan for certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the maximum pensionable salary limit under the *Income Tax Act*. The Plan is supplementary to the MEPP. The contribution rates in effect at December 31, 2016 were at 12.80% (2015: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

e) The Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans collectively are contributory defined benefit pension plans for Judges and Masters in Chambers of the Province of Alberta. Current service costs in the Registered Plan are funded by the Province of Alberta and plan members at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2017 are 7.00% of capped salary for plan members and 17.75% of capped salary for the Province. The Unregistered Plan contribution rates in effect at March 31, 2017 are unchanged at 7.00% of pensionable salary in excess of capped salary for members and 7.00% of the excess for the Province. Benefits are payable by the Province of Alberta if assets are insufficient to pay for all benefits under the Plans.

f) The Department of Treasury Board and Finance assumed responsibility for the entire unfunded pre-1992 pension obligation of the Teachers' Pension Plan. In 2009-10 there was a repayment of $1,187 million towards the liability. As of September 1, 2009, the costs of all benefits under the Plan are paid by the Department.

g) The Public Service Management (Closed Membership) Pension Plan provides benefits to former members of the Public Service Management Pension Plan who were retired, were entitled to receive a deferred pension or had attained 35 years of service before August 1, 1992. The costs of all benefits under the Plan are paid by the Department.

h) Under the *Public Sector Pension Plans Act*, the Department has a liability for payment of additional contributions under defined benefit pension plans for certain employees of municipalities and post-secondary educational institutions. The plans are the Universities Academic and the Special Forces plans.

For Universities Academic, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions of 1.25% of pensionable salaries by the Department, and contributions by employers and employees to fund the remaining amount, as determined by the plan valuation, over the period ending on or before December 31, 2043. Employers and employees fund current service costs.

For Special Forces, the unfunded liability for service credited prior to January 1, 1992 is being financed by additional contributions in the ratio of 45.45% by the Department and 27.27% each by employers and employees, over the period ending on or before December 31, 2036. Current service costs are funded by employers and employees. The *Act* provides that payment of all benefits arising from pensionable service prior to 1994, excluding post-1991 cost of living adjustment benefits, is guaranteed by the Province.

i) The Department has a liability for payment of pension benefits under a defined benefit pension plan for Members of the Legislative Assembly. Active participation in this plan was terminated as of June 1993, and no benefits can be earned for service after this date. The costs of all benefits under the plan are paid by the Department.

PENSION LIABILITY

SCHEDULE 12, CONTINUED

Actuarial valuations of the plans are completed at least triennially using the projected benefit method prorated on services. The following, by pension plan, is the actuary and date of the latest actuarial valuation.

Plan	Actuary	Latest Valuation Date
Local Authorities Pension Plan	Mercer (Canada) Limited	Dec. 31, 2015
Management Employees Pension Plan	Aon Hewitt	Dec. 31, 2015
Supplementary Retirement Plan	Aon Hewitt	Dec. 31, 2015
Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans	Aon Hewitt	Mar. 31, 2014
Public Service Pension Plan	Aon Hewitt	Dec. 31, 2014
Teachers' Pre-1992 Pension Plan	Aon Hewitt	Aug. 31, 2016
Public Service Management (Closed Membership) Pension Plan	Aon Hewitt	Dec. 31, 2014
Universities Academic Pension Plan	Aon Hewitt	Dec. 31, 2014
Special Forces Pension Plan	Mercer (Canada) Limited	Dec. 31, 2013
Members of the Legislative Assembly Pension Plan	Aon Hewitt	Mar. 31, 2017

The liabilities for pension obligations are based upon actuarial extrapolations, of the most recent actuarial valuation performed at December 31, 2016 or March 31, 2017, for accounting purposes that reflect management's best estimate as at the extrapolation date of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate.

The date of actuarial extrapolation and primary economic assumptions used for accounting purposes were:

Plan	Last Extrapolation Date	Salary Escalation Rate %	Inflation Rate %	Discount Rate %
Local Authorities Pension Plan	Dec. 31, 2016	3.00	2.00	5.50
Management Employees Pension Plan	Dec. 31, 2016	3.00	2.00	6.00
Provincial Judges and Masters in Chambers Registered Pension Plan	Mar. 31, 2017	3.00	2.00	5.30
Provincial Judges and Masters in Chambers Unregistered Pension Plan	Mar. 31, 2017	3.00	2.00	4.60
Public Service Management (Closed Membership) Pension Plan	Dec. 31, 2016	N/A	2.00	3.80
Public Service Pension Plan	Dec. 31, 2016	3.00	2.00	6.10
Special Forces Pension Plan	Dec. 31, 2016	3.00	2.00	5.90
Supplementary Retirement Plan for Public Service Managers	Dec. 31, 2016	3.00	2.00	5.90
Universities Academic Pension Plan	Mar. 31, 2017	3.00	2.00	6.00
Teachers' Pre-1992 Pension Plan	Mar. 31, 2017	3.00	2.00	3.80
Members of the Legislative Assembly Pension Plan	N/A	N/A	2.00	3.80

The assumptions used in the extrapolations were adopted after consultation between the pension plan boards, the Department and the actuaries, depending on the plan, and represent best estimates of future events. Each plan's future experience will vary, perhaps significantly, from the assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations. Gains and losses are amortized over the expected average remaining service lives of the employee group.

A separate pension plan fund is maintained for each pension plan except for the Teachers' Pre-1992 Pension Plan and the Members of the Legislative Assembly Pension Plan. Each pension plan fund reports annually through financial statements.

OTHER ACCRUED LIABILITIES

SCHEDULE 13

	($ millions) 2017	($ millions) 2016
Future funding to school boards to enable them to repay debentures issued to the Alberta Capital Finance Authority	$ 11	$ 20
Vacation entitlements	10	9
	$ 21	$ 29

RELATED PARTY TRANSACTIONS

SCHEDULE 14

Related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements. Related parties also include management in the Department.

As explained in Note 2a, the Department is responsible for managing all departments' cash transactions. As a result, the Department engages in transactions with its own funds and agencies and with all other departments and their funds and agencies in the normal course of operations.

The investment in Alberta Capital Finance Authority is recorded at cost because the Corporation has the authority to pay its accumulated surplus to municipal and other shareholders, which have borrowed money from the Corporation. At December 31, 2016, there is an accumulated operating surplus of $412 million (2015: $352 million). During the 2017 fiscal year, the Department paid $9 million (2016: $14 million) to the Corporation by way of grants to school boards to satisfy their interest and principal repayment obligations in respect of school board debentures. The investment in Alberta Pensions Services Corporation is not significant, either on a cost or on an equity basis.

The Department and its employees paid or collected certain taxes and fees set by regulation for permits, licenses and other charges. These amounts were incurred in the normal course of business, reflect charges applicable to all users, and have been excluded from this schedule.

The Department had transactions with related parties recorded on the statement of operations and the statement of financial position at the amount of consideration agreed upon between the related parties.

RELATED PARTY TRANSACTIONS

SCHEDULE 14, CONTINUED

($ millions)

	Entities in the Department		Other Entities	
	2017	**2016**	**2017**	**2016**
Revenues				
Transfers	$ 4,429	$ 3,440	$ -	$ -
Interest - government entities	320	293	73	75
Charges for services	88	80	-	-
	$ 4,837	$ 3,813	$ 73	$ 75
Expenses				
Cost of services	$ 2	$ 1	$ 4	$ 5
Assets				
Accounts receivable	$ 1,298	$ 649	$ -	$ -
Accrued interest receivable - government entities	85	74	15	15
Loans and advances to government entities	16,707	17,930	2,800	2,623
	$ 18,090	$ 18,653	$ 2,815	$ 2,638
Liabilities				
School construction debentures	$ -	$ -	$ 11	$ 20
	$ -	$ -	$ 11	$ 20

The Department also had the following transactions with related parties for which no consideration was exchanged. The amounts for these related party transactions are estimated based on the costs incurred by the service provider to provide the service. These amounts are not recorded in the financial statements but are disclosed on Schedule 15.

($ millions)

	Revenue		Expense	
	2017	**2016**	**2017**	**2016**
Accommodations	$ -	$ -	$ 8	$ 8
Corporate services	-	-	4	4
Government of Alberta Learning Centre	1	1	-	-
Internal audit services	1	1	-	-
Legal services	-	-	5	5
	$ 2	$ 2	$ 17	$ 17

The above transactions do not include support service arrangement transactions disclosed in schedule 2.

ALLOCATED COSTS BY PROGRAM

SCHEDULE 15

Total allocated costs of $1,523 million are comprised of total expenses per statement of operations amounting to $1,506 million and expenses incurred by others amounting to $17 million.

Program	Expenses [1]	Expenses Incurred by Others [2]	Total 2017	Total 2016
Ministry Support Services	$ 29	$ 2	$ 31	$ 27
Budget Development and Reporting	5	-	5	4
Fiscal Planning and Economic Analysis	5	-	5	5
Investment, Treasury and Risk Management	10	1	11	13
Office of the Controller	2	-	2	3
Corporate Internal Audit Services	3	-	3	4
Tax and Revenue Management	52	4	56	41
Financial Sector Regulation and Pensions	73	5	78	88
Public Service Commission	22	2	24	21
Gaming	43	3	46	49
Climate Leadership Plan - Consumer Rebates	152	-	152	-
Alberta Family Employment Tax Credit / Scientific Research and Experimental Development Tax Credit	206	-	206	204
Teachers' pre-1992 pension liability funding	469	-	469	465
Debt servicing	1,011	-	1,011	753
Pension Recovery	(434)	-	(434)	(623)
Corporate income tax allowance adjustment	(142)	-	(142)	7
	$ 1,506	$ 17	$ 1,523	$ 1,061

[1] Expenses – directly incurred as per the statement of operations.

[2] Includes accommodations of $8 million, corporate services of $4 million, and legal services of $5 million.

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ALBERTA CANCER PREVENTION LEGACY FUND

Financial Statements

March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Cancer Prevention Legacy Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of change in net financial assets, operations and accumulated surplus, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Cancer Prevention Legacy Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
June 7, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Financial assets		
Investments (Note 3)	$ 447,362	$ 463,218
Receivable from sale of investments	6,028	-
	453,390	463,218
Liabilities		
Transfer payable	6,328	-
Net Financial Assets	$ 447,062	$ 463,218
Net financial assets (Note 5)		
Accumulated operating surplus	$ 470,492	$ 476,671
Accumulated remeasurement losses	(23,430)	(13,453)
	$ 447,062	$ 463,218

Statement of Change in Net Financial Assets

Year Ended March 31, 2017

	($ thousands) 2017		2016
	Budget	Actual	Actual
Net operating deficiency	$ (17,050)	$ (6,179)	$ (9,369)
Net remeasurement losses		(9,977)	(7,127)
Decrease in net financial assets		**(16,156)**	**(16,496)**
Net financial assets, beginning of year		463,218	479,714
Net financial assets, end of year		$ 447,062	$ 463,218

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2017

	($ thousands)		
	2017		2016
	Budget	Actual	Actual
Investment income (Note 6)	$ 7,950	$ 16,205	$ 14,083
Investment expenses (Note 7)	-	(210)	(452)
Net income from operations	7,950	15,995	13,631
Transfers on behalf of the Ministry of Health (Note 5b)	(25,000)	(22,174)	(23,000)
Net operating deficiency	**(17,050)**	**(6,179)**	**(9,369)**
Accumulated operating surplus at beginning of year		476,671	486,040
Accumulated operating surplus at end of year		$ 470,492	$ 476,671

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2017

	($ thousands)	
	2017	2016
Unrealized loss on investments	$ (11,041)	$ (7,778)
Less: Amounts reclassified to the Statement of Operations - realized loss on investments	1,064	651
Net remeasurement losses	**(9,977)**	**(7,127)**
Accumulated remeasurement losses, beginning of year	(13,453)	(6,326)
Accumulated remeasurement losses, end of year	$ (23,430)	$ (13,453)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2017

	($ thousands)	
	2017	**2016**
Operating transactions		
Net income from operations	$ 15,995	$ 13,631
Non-cash items included in net income	1,064	651
	17,059	14,282
Increase in accounts receivable	(6,028)	-
Cash provided by operating transactions	11,031	14,282
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	21,990	23,000
Purchase of investments	(17,400)	(14,310)
Cash provided by investing transactions	4,590	8,690
Transfers		
Transfers on behalf of the Ministry of Health	(22,174)	(23,000)
Increase in transfer payable	6,328	-
Cash applied to transfers	(15,846)	(23,000)
Decrease in cash	(225)	(28)
Cash at beginning of year	225	253
Cash at end of year	$ -	$ 225
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ -	$ 225

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (97%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(all dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Cancer Prevention Legacy Fund (the Fund) operates under the authority of the *Alberta Cancer Prevention Legacy Act*, Chapter A14.2, Statutes of Alberta 2006 (the Act). The purpose of the Act is to support and encourage cancer prevention initiatives such as research, education, public policy development and social marketing initiatives. The Fund commenced operations on July 7, 2006.

The Fund invests the transfers made to the Fund. The portfolio is comprised of high-quality interest-bearing investments. The Act states that the President of Treasury Board, Minister of Finance shall not make any direct investment of the Fund or any portion of the Fund in securities of companies in the tobacco industry. The President of Treasury Board, Minister of Finance shall pay money from the Fund that is required by the Minister of Health for the purposes of the Act.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and divests its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo. Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market prices exist. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had readily available market prices existed for these investments.

f) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with investment policies approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

Asset class	Fair Value Hierarchy [a] Level 1	 Level 2	 Level 3	2017	2016
Interest-bearing securities					
Deposits in CCITF	$ -	$ -	$ -	$ -	$ 225
Bonds and mortgages	-	447,362	-	447,362	462,993
Total Fair Value of Investments	$ -	$447,362	$ -	$ 447,362	$ 463,218

a) Fair Value Hierarchy: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market.
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $447,362 (2016: $463,218). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data.

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, interest rate risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Interest rate risk is the risk that the value investments will decrease as market interest rates rise. Liquidity risk is the risk the Fund will not be able to meet its cash flow obligations as they fall due.

The Ministry of Treasury Board and Finance ensures the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, and quality constraints on fixed income instruments.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

a) Credit risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2017:

Credit rating	**2017**	**2016**
Investment Grade (AAA to BBB-)	100.0%	100.0%
Unrated	-	-
	100.0%	100.0%

ii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Fund's share of securities loaned under this program is $173,565 (2016: $96,920) and collateral held totals $183,249 (2016: $100,318). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 2.9% of total investments (2016: 2.8%).

c) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting cash flow obligations. Liquidity requirements of the Fund are met through income generated from investments and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. The Fund's future liabilities include cash requests from the Minister of Health for the purposes of the Act and payables related to purchase of pool units.

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception on July 7, 2006:

	Cumulative since 2006	
	2017	**2016**
Accumulated net income from operations	$ 210,528	$ 194,533
Transfers from the General Revenue Fund [a]	500,000	500,000
Accumulated transfers to Ministry [b]	(240,036)	(217,862)
Accumulated surplus from operations	470,492	476,671
Accumulated net remeasurement losses	(23,430)	(13,453)
Carrying value of net financial assets	$ 447,062	$ 463,218

[a] In accordance with section 5 of the *Alberta Cancer Prevention Legacy Act* (the Act), the Fund received $500 million from the General Revenue Fund.

[b] In accordance with section 6(1) of the Act, funds shall be paid out as required on the behalf of the Minister of Health.

NOTE 6 INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income by asset class:

	2017	2016
Interest-bearing securities	$ 16,205	$ 14,083

The investment income includes realized losses from disposal of pool units totalling $(1,064) (2016: $(651)) and income distributions from the pools total $17,269 (2016: $14,734).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2017	2016
Amounts charged by:		
AIMCo [(a)]	$ 180	$ 422
Alberta Treasury Board and Finance [(b)]	30	30
Total investment expenses	$ 210	$ 452
(Decrease) increase in expenses	(53.5%)	23.8%
Decrease in average investments under management	(3.4%)	(2.4%)
Increase in value of investments attributed to AIMCo	0.8%	0.4%
Investment expense as a percent of:		
Dollar earned	1.3%	3.2%
Dollar invested	0.1%	0.1%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs.

(b) For investment accounting and Fund reporting services.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized	
Time-weighted rates of return, at fair value [(a)]	2017	2016	5 years	9 years
Net return on investments [(b)]	1.3%	1.4%	2.5%	3.3%
Policy benchmark return [(b)]	0.5%	1.0%	1.8%	2.8%
Value added by AIMCo	0.8%	0.4%	0.7%	0.5%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 3(5) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

ALBERTA HERITAGE FOUNDATION FOR MEDICAL RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2017

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Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Foundation for Medical Research Endowment Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Foundation for Medical Research Endowment Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
June 7, 2017

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Net Financial Assets		
Investments (Note 3)	$ 1,835,645	$ 1,709,572
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,652,959	$ 1,499,157
Accumulated remeasurement gains	182,686	210,415
	$ 1,835,645	$ 1,709,572

Statement of Change in Net Financial Assets

Year Ended March 31, 2017

	($ thousands) 2017 Budget	2017 Actual	2016 Actual
Net operating surplus	$ 35,910	$ 153,802	$ 85,517
Net remeasurement losses		(27,729)	(44,457)
Increase in net financial assets		**126,073**	**41,060**
Net financial assets, beginning of year		1,709,572	1,668,512
Net financial assets, end of year		$ 1,835,645	$ 1,709,572

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2017

($ thousands)

	2017		2016
	Budget	Actual	Actual
Investment income (Note 6)	$ 118,949	$ 231,377	$ 154,133
Investment expenses (Note 7)	(11,759)	(12,603)	(13,456)
Net income from operations	107,190	218,774	140,677
Transfers for health research and innovation (Note 5b)	(71,280)	(64,972)	(55,160)
Net operating surplus	**$ 35,910**	**153,802**	**85,517**
Accumulated operating surplus at beginning of year		1,499,157	1,413,640
Accumulated operating surplus at end of year		$ 1,652,959	$ 1,499,157

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2017

($ thousands)

	2017	2016
Unrealized gain (loss) on investments	$ 26,189	$ (26,466)
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(53,918)	(17,991)
Net remeasurement losses	**(27,729)**	**(44,457)**
Accumulated remeasurement gains, beginning of year	210,415	254,872
Accumulated remeasurement gains, end of year	$ 182,686	$ 210,415

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2017

	($ thousands) 2017	2016
Operating transactions		
Net income from operations	$ 218,774	$ 140,677
Non-cash items included in net income	(53,918)	(17,991)
	164,856	122,686
Decrease in accounts payable	-	(5)
Cash provided by operating transactions	164,856	122,681
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	440,699	454,552
Purchase of investments	(531,759)	(529,856)
Cash applied to investing transactions	(91,060)	(75,304)
Transfers		
Transfers for health research and innovation	(64,972)	(55,160)
Cash applied to transfers	(64,972)	(55,160)
Increase (decrease) in cash	8,824	(7,783)
Cash at beginning of year	7,303	15,086
Cash at end of year	$ 16,127	$ 7,303
Consisting of Deposit in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 16,127	$ 7,303

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (97%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Foundation for Medical Research Endowment Fund (the Fund) operates under the authority of the *Alberta Research and Innovation Act*, Chapter A-31.7, Statutes of Alberta 2009 (the Act).

The purpose of the Fund is to support a balanced long-term program of research and innovation related to health and directed to the discovery of new knowledge and the application of that knowledge to improve health and the quality of health services in Alberta. The Fund is managed with the objectives of providing an annual level of income for transfer to the Ministry of Economic Development and Trade (EDT). The portfolio is comprised of interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and divests its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market prices exist. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had readily available market prices existed for these investments.

f) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of pool units is based on the Fund's share of the net asset value of the pooled fund. Pooled investment funds have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated the authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2017**	**2016**
Interest-bearing securities					
Deposits in CCITF	$ -	$ 16,127	$ -	$ 16,127	$ 7,303
Bonds, mortgages and private debt	-	225,906	108,472	334,378	322,713
	-	242,033	108,472	350,505	330,016
Equities					
Canadian	125,426	10,104	29,929	165,459	150,417
Global developed	400,487	58,908	136,007	595,402	528,348
Emerging markets	57,008	2,848	13,604	73,460	61,116
Private	-	-	125,721	125,721	137,968
	582,921	71,860	305,261	960,042	877,849
Inflation sensitive					
Real estate	-	-	332,548	332,548	346,289
Infrastructure	-	-	139,774	139,774	105,868
Timberland	-	-	34,759	34,759	32,388
	-	-	507,081	507,081	484,545
Strategic, tactical and currency investments *	-	1,742	16,275	18,017	17,162
Total Fair Value of Investments	$ 582,921	$ 315,635	$ 937,089	$ 1,835,645	$ 1,709,572

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $582,921 (2016: $414,213).
- ***Level 2*** - fair value is estimated using valuation methods that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $315,635 (2016: $342,502). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $937,089 (2016: $952,857).

Reconciliation of Level 3 Investments

	2017	**2016**
Balance, beginning of period	$ 952,857	$ 871,048
Unrealized (losses) gains	(3,593)	40,448
Purchases of Level 3 pooled fund units	287,068	248,758
Sale of Level 3 pooled fund units	(299,243)	(207,397)
Balance, end of period	$ 937,089	$ 952,857

NOTE 3 INVESTMENTS (in thousands) CONTINUED

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and

rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board, Minister of Finance approved the following target policy asset mix:

		Actual Asset Mix			
Asset Class	**Target Asset Policy**	**2017**		**2016**	
Interest-bearing securities	15 - 45%	$ 350,505	19.1%	$ 330,016	19.3%
Equities	35 - 70%	960,042	52.3%	877,849	51.3%
Inflation sensitive	15 - 40%	507,081	27.6%	484,545	28.3%
Strategic, tactical and currency investments	(a)	18,017	1.0%	17,162	1.1%
		$ 1,835,645	100.0%	$ 1,709,572	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

The following table summarizes debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	74.4%	74.7%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	25.4%	25.3%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in pooled funds to eligible third parties for short periods. At March 31, 2017, the Fund's share of securities loaned under this program is $91,915 (2016: $43,059) and collateral held totals $97,550 (2016: $45,620). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in pooled investment funds that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 36% (2016: 35%) of the Fund's investments, or $652,116 (2016: $593,672), are denominated in currencies other that the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 19% (2016: 18%) and the Euro, 4% (2016: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.6% of total investments (2016: 3.5%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2017:

	($ thousands)			
	2017		2016	
Currency[a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 348,732	$ (34,873)	$ 307,937	$ (30,794)
Euro	74,809	(7,481)	67,704	(6,770)
Japanese yen	48,504	(4,851)	44,325	(4,433)
British pound sterling	35,728	(3,573)	36,103	(3,610)
Hong Kong dollar	18,280	(1,828)	17,420	(1,742)
Other foreign currency	126,063	(12,606)	120,183	(12,018)
Total foreign currency investments	$ 652,116	$ (65,212)	$ 593,672	$ (59,367)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2016: 1.1%)

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.2% of total investments (2016: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include annual transfer requirements to the Ministry of EDT and payables related to purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

f) Use of derivative financial instruments in pooled investment funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of pooled investment funds. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in pooled funds, manage asset exposure within the pooled funds, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pooled funds.

		Fund's Indirect Share	
By counterparty	Number of counterparties	2017	2016
Contracts in favourable position (current credit exposure)	44	$ 9,498	$ 34,972
Contracts in unfavourable position	10	(6,865)	(6,815)
Net fair value of derivative contracts	54	$ 2,633	$ 28,157

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $9,498 (2016: $34,972) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share	
Types of derivatives	2017	2016
Structured equity replication derivatives	$ 2,713	$ 10,233
Foreign currency derivatives	(1,004)	18,537
Interest rate derivatives	231	(868)
Credit risk derivatives	693	255
Net fair value of derivative contracts	$ 2,633	$ 28,157

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2017 deposits in futures contracts margin accounts totalled $1,722 (2016: $4,918) and deposits as collateral for derivative contracts totalled $347 (2016: $674).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 1980:

	Cumulative since 1980	
	2017	**2016**
Accumulated net income from operations	$ 2,580,866	$ 2,362,092
Transfers from the Alberta Heritage Savings Trust Fund [(a)]	300,000	300,000
Transfers from the General Revenue Fund	500,000	500,000
Accumulated transfers for health research and innovation [(b)]	(1,727,907)	(1,662,935)
Accumulated surplus from operations	1,652,959	1,499,157
Accumulated remeasurement gains	182,686	210,415
Carrying value of net financial assets	$ 1,835,645	$ 1,709,572

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on March 31, 1980.

(b) Section 12 of the Act limits the annual payments from the Fund to the Ministry of EDT. Payments to the Ministry of EDT may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year. Payments in excess of this amount may be made from the Fund if required in the opinion of the Minister of EDT.

NOTE 6 NET INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income (loss) by asset class:

	2017	**2016**
Interest-bearing securities	$ 22,709	$ 19,533
Equities		
Canadian	14,191	(1,453)
Global	130,034	57,738
Private	18,202	11,759
	162,427	68,044
Inflation sensitive		
Real estate	36,594	18,095
Infrastructure	8,815	52,390
Timberland	2,850	(458)
	48,259	70,027
Strategic, tactical and currency investments	(2,018)	(3,471)
	$ 231,377	$ 154,133

The investment income includes realized gains and losses from disposal of pool units totalling $54,355 (2016: $26,772) and from directly held foreign exchange contracts totalling $(437) (2016: $(8,781)). Income distributions from the pools total $177,459 (2016: $136,142).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2017	2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 10,159	$ 10,768
Performance based fees [(a)]	2,395	2,639
	12,554	13,407
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 12,603	$ 13,456
(Decrease) increase in expenses	(6.3%)	6.4%
Increase in average investments under management	5.0%	4.3%
Increase in value of investments attributed to AIMCo	0.9%	5.8%
Investment expenses as a percent of:		
Dollar earned	5.4%	8.7%
Dollar invested	0.7%	0.8%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2017	2016	5 years	10 years
Net return on investments [(b)]	11.4%	5.8%	11.4%	6.6%
Policy benchmark return [(b)]	10.5%	0.0%	10.2%	6.2%
Value added by AIMCo [(c)]	0.9%	5.8%	1.2%	0.4%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1%, per annum above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

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ALBERTA HERITAGE SAVINGS TRUST FUND

Financial Statements

March 31, 2017

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Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Savings Trust Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Savings Trust Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
June 7, 2017

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

(in millions)

	2017	2016
Financial assets		
Investments (Note 3)	$ 18,334	$ 17,975
Liabilities		
Due to the General Revenue Fund	851	229
Net Financial Assets	$ 17,483	$ 17,746
Net financial assets (Note 5)		
Accumulated operating surplus	$ 15,352	$ 15,170
Accumulated remeasurement gains	2,131	2,576
	$ 17,483	$ 17,746

Statement of Change in Net Financial Assets

Year Ended March 31, 2017

(in millions)

	2017		2016
	Budget	Actual	Actual
Net surplus retained in the Fund	$ 243	$ 182	$ 209
Net remeasurement losses		(445)	(411)
Decrease in net financial assets		**(263)**	**(202)**
Net financial assets, beginning of year		17,746	17,948
Net financial assets, end of year		$ 17,483	$ 17,746

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2017

(in millions)

	2017 Budget	2017 Actual	2016 Actual
Investment income (Note 7)	$ 1,185	$ 2,467	$ 1,388
Investment expenses (Note 8)	(130)	(134)	(150)
Net income from operations	1,055	2,333	1,238
Transfers to the General Revenue Fund (Note 5b)	(812)	(2,151)	(1,029)
Net surplus retained in the Fund (Note 5b)	**$ 243**	**182**	**209**
Accumulated operating surplus, beginning of year		15,170	14,961
Accumulated operating surplus, end of year		$ 15,352	$ 15,170

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2017

(in millions)

	2017	2016
Unrealized gain (loss) on investments	$ 157	$ (223)
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(602)	(188)
Net remeasurement losses	**(445)**	**(411)**
Accumulated remeasurement gains, beginning of year	2,576	2,987
Accumulated remeasurement gains, end of year	$ 2,131	$ 2,576

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2017

(in millions)

	2017	2016
Operating transactions		
Net income from operations	$ 2,333	$ 1,238
Non-cash items included in net income	(602)	(188)
Cash provided by operating transactions	1,731	1,050
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	5,236	4,251
Purchase of investments	(5,432)	(4,082)
Cash (used in) provided by investing transactions	(196)	169
Transfers		
Transfers to the General Revenue Fund	(2,151)	(1,029)
Increase (decrease) in amounts due to the General Revenue Fund	622	(142)
Cash used in transfers	(1,529)	(1,171)
Increase in cash	6	48
Cash at beginning of year	97	49
Cash at end of year	$ 103	$ 97
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 103	$ 97

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (97%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar values in millions, unless otherwise stated)

NOTE 1 AUTHORITY AND MISSION

The Alberta Heritage Savings Trust Fund (the Fund) operates under the authority of the *Alberta Heritage Savings Trust Fund Act*, Chapter A-23, Revised Statutes of Alberta 2000 (the Act), as amended.

The preamble to the Act describes the mission of the Fund as follows:

"To provide prudent stewardship of the savings from Alberta's non-renewable resources by providing the greatest financial returns on those savings for current and future generations of Albertans."

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and divests its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 7). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds,

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING... CONTINUED

timberland investments, and other investments where no readily available market prices exist. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had readily available market prices existed for these investments.

f) TRANSFERS TO THE GENERAL REVENUE FUND (GRF)

Transfers to the GRF are recorded on an accrual basis. In accordance with Section 8 of the Act, all of the net income of the Fund is transferred to the GRF except for any amount retained in the Fund to maintain its value against inflation (see Note 5 (b)).

g) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 INVESTMENTS (in millions)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

Asset class	Fair Value Hierarchy [(a)] Level 1	 Level 2	 Level 3	2017	2016
Interest-bearing securities					
Deposits in CCITF	$ -	$ 103	$ -	$ 103	$ 97
Bonds, mortgages and private debt	-	2,018	1,154	3,172	3,256
	-	2,121	1,154	3,275	3,353
Equities					
Canadian	1,253	101	299	1,653	1,579
Global developed	3,352	495	1,239	5,086	4,879
Emerging markets	539	26	129	694	530
Private	-	-	1,229	1,229	1,426
	5,144	622	2,896	8,662	8,414
Inflation sensitive					
Real estate	-	-	4,055	4,055	4,205
Infrastructure	-	-	1,666	1,666	1,360
Timberland	-	-	469	469	437
	-	-	6,190	6,190	6,002
Strategic, tactical and currency investments [1]	-	21	186	207	206
Total Fair Value of Investments	$ 5,144	$ 2,764	$10,426	$ 18,334	$ 17,975

[1] This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $5,144 (2016: $3,775).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $2,764 (2016: $3,273). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $10,426 (2016: $10,927).

Reconciliation of Level 3 Investments

	2017	2016
Balance, beginning of period	$ 10,927	$ 10,180
Unrealized (losses) gains	(123)	395
Purchases of Level 3 pooled fund units	2,808	2,156
Sale of Level 3 pooled fund units	(3,186)	(1,804)
Balance, end of period	$ 10,426	$ 10,927

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities***: Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields

and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board, Minister of Finance has approved the following target policy asset mix:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2017		Actual Asset Mix 2016	
Interest-bearing securities	15 - 45%	$ 3,275	17.9%	$ 3,353	18.7%
Equities	35 - 70%	8,662	47.2%	8,414	46.8%
Inflation sensitive	15 - 40%	6,190	33.8%	6,002	33.4%
Strategic, tactical and currency investments	(a)	207	1.1%	206	1.1%
		$ 18,334	100.0%	$ 17,975	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at March 31, 2017:

Credit rating	**2017**	**2016**
Investment Grade (AAA to BBB-)	71.5%	72.4%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	28.3%	27.6%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Fund's share of securities loaned under this program is $810 (2016: $404) and collateral held totals $860 (2016: $428). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 31% (2016: 30%) of the Fund's investments, or $5,756 (2016: $5,453), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 17% (2016: 16%) and the Euro, 3% (2016: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.1% of total investments (2016: 3.0%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2017:

	2017		2016	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 3,065	$ (307)	$ 2,828	$ (283)
Euro	641	(64)	621	(62)
Japanese yen	413	(41)	410	(41)
British pound sterling	303	(30)	335	(33)
Other foreign currency	1,334	(134)	1,259	(126)
Total foreign currency investments	$ 5,756	$ (576)	$ 5,453	$ (545)

[a] Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.1% of total investments (2016: 1.0%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 5.9% of total investments (2016: 6.0%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include transfers payable to the General Revenue Fund and payables related to purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT (in millions) CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost-effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Fund's Indirect Share 2017	Fund's Indirect Share 2016
Contracts in favourable position (current credit exposure)	44	$ 89	$ 370
Contracts in unfavourable position	10	(79)	(62)
Net fair value of derivative contracts	54	$ 10	$ 308

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $89 (2016: $370) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Fund's Indirect Share 2017	Fund's Indirect Share 2016
Structured equity replication derivatives	$ 25	$ 100
Foreign currency derivatives	(23)	214
Interest rate derivatives	2	(8)
Credit risk derivatives	6	2
Net fair value of derivative contracts	$ 10	$ 308

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2017, deposits in futures contracts margin accounts totalled $16 (2016: $48) and deposits as collateral for derivative contracts totalled $4 (2016: $7).

NOTE 5 NET FINANCIAL ASSETS (in millions)

Net financial assets represent the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows accumulated net income and transfers to (from) the Fund since the Fund was created on May 19, 1976:

	Cumulative since 1976	
	2017	2016
Accumulated net income	$ 40,778	$ 38,445
Transfers to the Fund		
Resource Revenue (1976-1987)	12,049	12,049
Access to the Future [(a)]	1,000	1,000
Voted Payments	2,918	2,918
	15,967	15,967
Transfers (from) the Fund		
Section 8 transfers [(b)]		
Income	(40,983)	(38,650)
Amount Retained in the Fund	3,331	3,149
	(37,652)	(35,501)
Capital Expenditures (1976-1995) [(c)]	(3,486)	(3,486)
Other Statutory Transfers [(d)]	(255)	(255)
	(41,393)	(39,242)
Accumulated surplus from operations	15,352	15,170
Accumulated remeasurement gains	2,131	2,576
Carrying value of net financial assets	$ 17,483	$ 17,746

[(a)] Section 9.1 of the Act and Section 4(5) of the *Access to the Future Act* provides that up to $3 billion may be transferred from the GRF to the Fund (see Note 6 (ii)).

[(b)] During the year, the Fund earned net income of $2,333, of which $182 was retained in the Fund and $2,151 is payable to the GRF. Section 8 of the Act states that the net income of the Heritage Fund, less any amount retained in the Fund, in accordance with section 11 of the Act, shall be transferred to the GRF in a manner determined by the President of Treasury Board, Minister of Finance. The amount to be retained in the Fund for inflation proofing is determined by multiplying the accumulated operating surplus of the Fund from the prior fiscal year end by the estimated percentage increase in the Alberta Consumer Price Index (Alberta CPI) for the year. In accordance with section 11(2), if the Alberta CPI is a negative number, that negative number shall be treated as if it were zero.

[(c)] Capital expenditures include transfers of $300 to the Alberta Heritage Foundation for Medical Research in 1980 and $100 to the Alberta Heritage Scholarship Fund in 1981.

[(d)] Transfers of $200 to the Alberta Heritage Scholarship Fund and $3 for the Agriculture and Food Innovation Account were made during 2014-15 in accordance with the *Savings Management Act (*Sections 7 and 4(1) respectively). This Act was repealed December 17, 2014. The transfers from the Fund remain with the Alberta Heritage Scholarship Fund to be used for trades scholarships, and with Agriculture and Rural Development, to support basic and applied agricultural research, education and commercialization. Transfers out of the Fund to the Access to the Future Fund total $52.

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions)

The following notional account has been established within the Fund. The notional balance provided below is used as a base to which a rate is applied to determine future cash transfers to support advanced education and educational initiatives for the long-term benefit of Albertans:

	2017	2016
Balance, beginning of year	$ 1,319	$ 1,260
Rate of return adjustment	141	59
Balance, end of year	$ 1,460	$ 1,319

NOTE 6 INVESTING IN ADVANCED EDUCATION (in millions) CONTINUED

i) The Account was established for the purpose of funding the Access to the Future Fund in the Ministry of Advanced Education. The Access to the Future Fund supports innovation and excellence that enhances and expands opportunities for Albertans to participate in accessible, affordable and high-quality advanced education opportunities.

ii) A maximum of $3 billion can be allocated to the account from within the Fund of which $750 million has been allocated in 2005-06 and $250 million in 2006-07. The balance in the account is adjusted for (a) the rate of return reported by the Fund for the period and (b) transfers to the Access to the Future Fund.

iii) Maximum transfers to the Access to the Future Fund are calculated as 4.5% of the average of the closing balances of the Account for the preceding 3 fiscal years. Effective in fiscal year 2015-16, transfers to the Access to the Future Fund are made from the General Revenue Fund (Sec 4(7) of the *Access to the Future Act*). No transfers were made to the Access to the Future Fund in 2016-17 and no transfers were made in 2015-16.

NOTE 7 INVESTMENT INCOME (in millions)

The following is a summary of the Fund's investment income (loss) by asset class:

	2017	2016
Interest-bearing securities	$ 226	$ 191
Equities		
Canadian	160	(12)
Global	1,264	596
Private	195	126
	1,619	710
Inflation sensitive		
Real estate	434	222
Infrastructure	164	313
Timberland	38	(6)
	636	529
Strategic, tactical and currency investments	(14)	(42)
	$ 2,467	$ 1,388

The investment income includes realized gains and losses from disposal of pool units totalling $598 (2016: $292) and from directly held foreign exchange contracts totalling $4 (2016: ($104)). Income distributions from the pools total $1,865 (2016: $1,200).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES (in millions)

	2017	2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 107	$ 118
Performance based fees [(a)]	27	32
Total investment expenses	$ 134	$ 150
(Decrease) increase in expenses	(10.7%)	2.0%
Increase in average investments under management	0.0%	0.9%
Increase in value of investments attributed to AIMCo	0.6%	4.3%
Investment expense as a percent of:		
Dollar earned	5.4%	10.8%
Dollar invested	0.7%	0.8%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

Includes $118 thousand (2016: $118 thousand) charged to the Fund by Alberta Treasury Board and Finance for investment accounting and reporting services and $54 thousand (2016: $nil) paid to the International Forum of Sovereign Wealth Funds for membership.

NOTE 9 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

			Average Annualized Return	
Time-weighted rates of return, at fair value [(a)]	2017	2016	5 years [(d)]	10 years
Net return on investments [(b)]	10.7%	4.7%	11.0%	6.8%
Policy benchmark return [(b)]	10.1%	0.4%	10.1%	6.4%
Value added by AIMCo [(c)]	0.6%	4.3%	0.9%	0.4%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

(d) In accordance with the SIP&G, over a five-year period, it is expected that the policy portfolio will earn an average return of 4.5%, adjusted for inflation and value added by investment manager of 1.0%. The five-year annualized CPI is 1.4%, bringing the five-year annualized Portfolio Return Expectation to 6.9%.

NOTE 10 FINANCIAL STATEMENTS

Quarterly and annual financial statements are prepared by the Department of Treasury Board and Finance and are approved by the Department's Senior Financial Officer and Deputy Minister. The statements report the activities and financial performance of the Fund for the period and are provided to the Standing Committee on the Alberta Heritage Savings Trust Fund in accordance with section 15 and 16 of the Act. Unaudited interim financial statements for the first three quarters of each fiscal year are made available to the public by the President of Treasury Board, Minister of Finance within two months following each quarter-end. Annual audited financial statements of the Fund are included in the annual report of the Ministry of Treasury Board and Finance which is made public on or before June 30 following each fiscal year ending on the preceding March 31.

ALBERTA HERITAGE SCHOLARSHIP FUND

Financial Statements

March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Scholarship Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Scholarship Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
June 7, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Financial assets		
Investments (Note 3)	$ 1,301,336	$ 1,214,115
Liabilities		
Accounts payable	220	242
Net Financial Assets	$ 1,301,116	$ 1,213,873
Net financial assets (Note 5)		
Accumulated operating surplus	$ 1,205,282	$ 1,107,922
Accumulated remeasurement gains	95,834	105,951
	$ 1,301,116	$ 1,213,873

Statement of Change in Net Financial Assets

Year Ended March 31, 2017

	2017 Budget	2017 Actual	2016 Actual
Net operating surplus	$ 14,881	$ 97,360	$ 45,099
Net remeasurement losses		(10,117)	(37,088)
Increase in net financial assets		**87,243**	**8,011**
Net financial assets, beginning of year		1,213,873	1,205,862
Net financial assets, end of year		$ 1,301,116	$ 1,213,873

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2017

	($ thousands)		
	2017		2016
	Budget	Actual	Actual
Investment income (Note 6)	$ 68,857	$ 156,448	$ 102,227
Investment expenses (Note 7)	(8,087)	(8,251)	(8,132)
Net income from operations	60,770	148,197	94,095
Transfers from Alberta Government departments	800	-	-
Other contributions	90	23	66
Transfers for Scholarships to the Ministries of:			
Advanced Education	(46,699)	(50,805)	(49,010)
Culture and Tourism	(80)	(55)	(52)
	(46,779)	(50,860)	(49,062)
Net operating surplus	**$ 14,881**	**97,360**	**45,099**
Accumulated operating surplus, beginning of year		1,107,922	1,062,823
Accumulated operating surplus, end of year		$ 1,205,282	$ 1,107,922

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2017

	($ thousands)	
	2017	2016
Unrealized gain (loss) on investments	$ 21,638	$ (30,355)
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(31,755)	(6,733)
Net remeasurement losses	**(10,117)**	**(37,088)**
Accumulated remeasurement gains, beginning of year	105,951	143,039
Accumulated remeasurement gains, end of year	$ 95,834	$ 105,951

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Operating transactions		
Net income from operations	$ 148,197	$ 94,095
Non-cash items included in net income	(31,755)	(6,733)
	116,442	87,362
(Decrease) increase in accounts payable	(22)	30
Cash provided by operating transactions	116,420	87,392
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	303,645	321,485
Purchase of investments	(362,131)	(363,629)
Cash applied to investing transactions	(58,486)	(42,144)
Transfers		
Other contributions	23	66
Transfers for Scholarships	(50,860)	(49,062)
Cash applied to transfers	(50,837)	(48,996)
Increase (decrease) in cash	7,097	(3,748)
Cash at beginning of year	6,622	10,370
Cash at end of year	$ 13,719	$ 6,622
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 13,719	$ 6,622

* The CCITF is a highly-liquid, short-term money market pooled fund consisting primarily (97%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Scholarship Fund ("the Fund") operates under the authority of the *Alberta Heritage Scholarship Act*, Chapter A24, Revised Statutes of Alberta 2000 (the Act).

The purpose of the Fund is to invest the endowment made to the Fund. The Fund is managed with the objectives of providing an annual level of income for scholarships while preserving the capital of the endowment over the long term. The portfolio is comprised of high quality interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market price exist. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had readily available market prices existed for these investments.

f) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**

  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pool. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

Asset class	Fair Value Hierarchy [(a)] Level 1	Level 2	Level 3	2017	2016
Interest-bearing securities					
Deposits in CCITF	$ -	$ 13,719	$ -	$ 13,719	$ 6,622
Bonds, mortgages and private debt	-	195,914	63,697	259,611	258,594
	-	209,633	63,697	273,330	265,216
Equities					
Canadian	89,029	7,171	21,244	117,444	106,633
Global developed	299,994	44,095	99,989	444,078	403,211
Emerging markets	45,429	2,270	10,840	58,539	45,843
Private	-	-	84,568	84,568	91,818
	434,452	53,536	216,641	704,629	647,505
Inflation sensitive					
Real estate	-	-	219,002	219,002	225,808
Infrastructure	-	-	88,163	88,163	60,137
Timberland	-	-	4,878	4,878	4,539
	-	-	312,043	312,043	290,484
Strategic, tactical and currency investments*	-	1,240	10,094	11,334	10,910
Total Fair Value of Investments	$ 434,452	$ 264,409	$ 602,475	$1,301,336	$ 1,214,115

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $434,452 (2016: $315,888).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $264,409 (2016: $297,320). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $602,475 (2016: $600,907).

Reconciliation of Level 3 Fair Value Measurements

	2017	2016
Balance, beginning of year	$ 600,907	$ 519,599
Unrealized (losses) gains	(2,868)	21,494
Purchases of Level 3 pooled fund units	202,092	185,212
Sale of Level 3 pooled fund units	(197,656)	(125,398)
Balance, end of year	$ 602,475	$ 600,907

NOTE 3 INVESTMENTS (in thousands) CONTINUED

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.

- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.

- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board, Minister of Finance has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2017		Actual Asset Mix 2016	
Interest-bearing securities	15 - 45%	$ 273,330	21.0%	$ 265,216	21.9%
Equities	35 - 70%	704,629	54.1%	647,505	53.3%
Inflation sensitive	15 - 40%	312,043	24.0%	290,484	23.9%
Strategic, tactical and currency investments	(a)	11,334	0.9%	10,910	0.9%
		$ 1,301,336	100.0%	$ 1,214,115	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

The table below summarizes debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	80.1%	81.9%
Speculative Grade (BB+ or lower)	0.3%	0.0%
Unrated	19.6%	18.1%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Fund's share of securities loaned under this program is $71,920 (2016: $34,098) and collateral held totals $76,265 (2016: $36,068). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 37% (2016: 37%) of the Fund's investments, or $486,909 (2016: $444,931), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2016: 19%) and the Euro, 4% (2016: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.7% of total investments (2016: 3.7%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2017:

	($ thousands)			
	2017		**2016**	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 259,133	$ (25,913)	$ 230,717	$ (23,072)
Euro	55,617	(5,562)	51,491	(5,149)
Japanese yen	36,171	(3,617)	33,714	(3,371)
British pound sterling	26,661	(2,666)	27,378	(2,738)
Hong Kong dollar	14,415	(1,442)	13,063	(1,306)
Other foreign currency	94,912	(9,491)	88,568	(8,857)
Total foreign currency investments	$ 486,909	$ (48,691)	$ 444,931	$ (44,493)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.3% of total investments (2016: 1.4%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.2% of total investments (2016: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's main liabilities include annual scholarships and payables related to purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Fund's Indirect Share 2017	Fund's Indirect Share 2016
Contracts in favourable position (current credit exposure)	43	$ 7,198	$ 23,022
Contracts in unfavourable position	11	(4,793)	(5,071)
Net fair value of derivative contracts	54	$ 2,405	$ 17,951

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $7,198 (2016: $23,022) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives	Fund's Indirect Share 2017	Fund's Indirect Share 2016
Structured equity replication derivatives	$ 1,888	$ 7,564
Foreign currency derivatives	(232)	10,988
Interest rate derivatives	186	(832)
Credit risk derivatives	563	231
Net fair value of derivative contracts	$ 2,405	$ 17,951

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2017 deposits in futures contracts margin accounts totalled $1,264 (2016: $3,897) and deposits as collateral for derivative contracts totalled $250 (2016: $351).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to (from) the Fund since its inception in 1981:

	Cumulative since 1981	
	2017	2016
Accumulated net income from operations	$ 1,124,221	$ 976,024
Transfers from the Alberta Heritage Savings Trust Fund:		
Endowment [a]	100,000	100,000
Savings Management Act [b]	200,000	200,000
Transfers from the General Revenue Fund [c]	497,000	497,000
Other contributions	20,979	20,956
Accumulated scholarship payments [a]	(736,918)	(686,058)
Accumulated surplus from operations	1,205,282	1,107,922
Accumulated net remeasurement gains	95,834	105,951
Carrying value of net financial assets	$ 1,301,116	$ 1,213,873

(a) The endowment was received from the Alberta Heritage Savings Trust Fund on June 18, 1981. *The Alberta Heritage Scholarship Act* (the Act) provides that money required by the Students Finance Board for providing scholarships, or for paying for the costs of administering scholarships, shall be paid from the Fund, but no portion of the original endowment may be paid out of the Fund.

(b) In accordance with section 7 of the *Savings Management Act*, the Fund received $200 million from the Alberta Heritage Savings Trust Fund to be used for trades scholarships. The *Savings Management Act* was repealed on December 17, 2014.

(c) In accordance with section 2.1 of the Act, transfers from the GRF include $270 million on account of the *Access to the Future Act*. Section 7 of the *Access to the Future Act* states that the Alberta Heritage Scholarship Fund shall be increased by $1 billion, in amounts considered appropriate by the President of Treasury Board, Minister of Finance.

NOTE 6 INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income (loss) by asset class:

	2017	2016
Interest-bearing securities	$ 15,883	$ 16,200
Equities		
Canadian	9,762	(1,156)
Global	92,012	41,840
Private	13,313	3,606
	115,087	44,290
Inflation sensitive		
Real estate	21,622	10,862
Infrastructure	4,563	33,281
Timberland	399	(64)
	26,584	44,079
Strategic, tactical and currency investments	(1,106)	(2,342)
	$ 156,448	$ 102,227

NOTE 6 INVESTMENT INCOME (in thousands) CONTINUED

The investment income includes realized gains and losses from disposal of pool units totalling $31,878 (2016: $12,214) and from directly held foreign exchange contracts totalling $(123) (2016: $(5,481)). Income distributions from the pools total $124,693 (2016: $95,494).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2017	2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 6,651	$ 7,053
Performance based fees [(a)]	1,551	1,030
	8,202	8,083
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 8,251	$ 8,132
Increase in expenses	1.5%	2.8%
Increase in average investments under management	3.9%	14.5%
Increase in value of investments attributed to AIMCo	0.8%	4.7%
Investment expense as a percent of:		
Dollar earned	5.3%	8.0%
Dollar invested	0.7%	0.7%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

Time-weighted rates of return, at fair value [(a)]	2017	2016	Average Annualized Return 5 years	 10 years
Net return on investments [(b)]	11.6%	4.8%	11.3%	6.9%
Policy benchmark return [(b)]	10.7%	0.1%	10.3%	6.6%
Value added by AIMCo[(c)]	0.9%	4.7%	1.0%	0.3%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified year and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G, the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points, or 1% per annum, above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 2(5) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

ALBERTA HERITAGE SCIENCE AND ENGINEERING RESEARCH ENDOWMENT FUND

Financial Statements

March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Heritage Science and Engineering Research Endowment Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net financial assets, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Heritage Science and Engineering Research Endowment Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA,FCA]

Auditor General
June 7, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

(in thousands)

	2017	2016
Financial assets		
Investments (Note 3)	$ 1,093,551	$ 1,012,889
Net Financial Assets	$ 1,093,551	$ 1,012,889
Net financial assets (Note 5)		
Accumulated surplus from operations	$ 988,565	$ 892,686
Accumulated remeasurement gains	104,986	120,203
	$ 1,093,551	$ 1,012,889

Statement of Change in Net Financial Assets

Year Ended March 31, 2017

(in thousands)

	2017		2016
	Budget	Actual	Actual
Net operating surplus	$ 25,640	$ 95,879	$ 48,358
Net remeasurement losses		(15,217)	(26,993)
Increase in net financial assets		**80,662**	**21,365**
Net financial assets, beginning of year		1,012,889	991,524
Net financial assets, end of year		$ 1,093,551	$ 1,012,889

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2017

(in thousands)

	2017		2016
	Budget	Actual	Actual
Investment income (Note 6)	$ 67,863	$ 138,626	$ 91,116
Investment expense (Note 7)	(6,923)	(7,447)	(7,958)
Net income from operations	60,940	131,179	83,158
Transfers for research and innovation (Note 5b)	(35,300)	(35,300)	(34,800)
Net operating surplus	**$ 25,640**	**95,879**	**48,358**
Accumulated operating surplus at beginning of year		892,686	844,328
Accumulated operating surplus at end of year		$ 988,565	$ 892,686

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2017

(in thousands)

	2017	2016
Unrealized gain (loss) on investments	$ 17,094	$ (15,253)
Less: Amounts reclassified to the Statement of Operations - realized gains on investments	(32,311)	(11,740)
Net remeasurement losses	**(15,217)**	**(26,993)**
Accumulated remeasurement gains, beginning of year	120,203	147,196
Accumulated remeasurement gains, end of year	$ 104,986	$ 120,203

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2017

(in thousands)

	2017	2016
Operating transactions		
Net income from operations	$ 131,179	$ 83,158
Non-cash items included in net income	(32,311)	(11,740)
	98,868	71,418
Decrease in accounts payable	-	(3)
Cash provided by operating transactions	98,868	71,415
Investing transactions		
Proceeds from disposals, repayments and redemptions of investments	261,259	257,690
Purchase of investments	(319,320)	(298,365)
Cash applied to investing transactions	(58,061)	(40,675)
Transfers		
Transfers for research and innovation	(35,300)	(34,800)
Cash applied to transfers	(35,300)	(34,800)
Increase (decrease) in cash	5,507	(4,060)
Cash at beginning of year	4,149	8,209
Cash at end of year	$ 9,656	$ 4,149
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (CCITF) *	$ 9,656	$ 4,149

* The CCITF is a highly-liquid, short term money market pooled fund consisting primarily (97%) of securities with maturities of less than one year.

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Alberta Heritage Science and Engineering Research Endowment Fund (the Fund) operates under the authority of the *Alberta Research and Innovation Act*, Chapter A-31.7, Statutes of Alberta 2009 (the Act).

The purpose of the Fund is to support a balanced long-term program of research and innovation directed to the discovery of new knowledge and the application of that knowledge to the commercialization of technology. The Fund has been managed with the objectives of providing an annual level of income for transfer to the Ministry of Economic Development and Trade. The portfolio is comprised of interest-bearing securities, equities, inflation sensitive and alternative investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards. The net financial asset model is presented in the financial statements. Net financial assets are measured as the difference between the Fund's financial assets and liabilities as described in the statement of financial position.

The accounting policies of significance to the Fund are as follows:

a) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Fund does not report the financial instruments of the pools on its statement of financial position.

The Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b).

Investments in pool units are recorded in the Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the period end. Differences in valuation estimates provided to Treasury Board and Finance after the period end cut-off date are reviewed by management. Differences considered immaterial by management are included in investments and remeasurement gains or losses in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

b) INVESTMENT INCOME

i) Income distributions from the pools are recorded in the Fund's accounts and included in investment income on the statement of operations and accumulated surplus (see Note 6). Income distributions are based on the Fund's pro-rata share of total units issued by the pools.

ii) Realized gains and losses on disposal of pool units are recorded in the Fund's accounts and included in income on the statement of operations and accumulated surplus. Realized gains and losses on disposal of pool units are determined on an average cost basis.

iii) Investment income is recorded on an accrual basis. Investment income is accrued when there is reasonable assurance as to its measurement and collectability.

c) INVESTMENT EXPENSES

i) Investment expenses include all amounts incurred by the Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

ii) Other expenses related to the direct administration of the Fund are charged to the Fund on an accrual basis.

d) REMEASUREMENT GAINS AND LOSSES

Accumulated remeasurement gains primarily represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains and losses are recognized in the statement of remeasurement gains and losses. Changes in accumulated remeasurement gains and losses during the year include unrealized increases and decreases in fair value of the pool units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in net income on the statement of operations and accumulated surplus.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES CONTINUED

e) MEASUREMENT UNCERTAINTY

Measurement uncertainty exists in the fair values reported for certain investments such as private equities, infrastructure, private debt and loans, private real estate, hedge funds, timberland investments, and other investments where no readily available market prices exist. The fair values of these investments are based on estimates. Estimated fair values may not reflect amounts that could be recognized upon immediate sale, or amounts that ultimately may be recognized. Accordingly, the estimated fair values may differ significantly from the value that would have been used had readily available market prices existed for these investments.

f) FUTURE CHANGES IN ACCOUNTING POLICY

The Public Sector Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**

  PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.

- **PS 3430 Restructuring Transactions (effective April 1, 2018)**

  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 INVESTMENTS (in thousands)

The carrying amounts of the Fund's investments are recorded on a fair value basis. The Fund's investments are managed at the asset class level for purposes of evaluating the Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Fund's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of the pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

Asset class	Fair Value Hierarchy [a] Level 1	 Level 2	 Level 3	2017	2016
Interest-bearing securities					
Deposits in CCITF	$ -	$ 9,656	$ -	$ 9,656	$ 4,149
Bonds, mortgages and private debt	-	141,509	63,701	205,210	198,836
	-	151,165	63,701	214,866	202,985
Equities					
Canadian	74,871	6,027	17,866	98,764	89,232
Global developed	240,182	35,323	80,957	356,462	315,262
Emerging markets	36,133	1,805	8,622	46,560	35,668
Private	-	-	74,184	74,184	81,267
	351,186	43,155	181,629	575,970	521,429
Inflation sensitive					
Real estate	-	-	191,565	191,565	199,058
Infrastructure	-	-	79,842	79,842	59,813
Timberland	-	-	20,892	20,892	19,466
	-	-	292,299	292,299	278,337
Strategic, tactical and currency investments *	-	962	9,454	10,416	10,138
Total Fair Value of Investments	$ 351,186	$ 195,282	$ 547,083	$ 1,093,551	$ 1,012,889

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $351,186 (2016: $247,283).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $195,282 (2016: $212,799). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and all inflation sensitive investments totalling $547,083 (2016: $552,807).

Reconciliation of Level 3 Investments

	2017	2016
Balance, beginning of year	$ 552,807	$ 498,631
Unrealized (losses) gains	(1,919)	23,450
Purchases of Level 3 pooled fund units	171,478	147,816
Sale of Level 3 pooled fund units	(175,283)	(117,090)
Balance, end of year	$ 547,083	$ 552,807

NOTE 3 INVESTMENTS (in thousands) CONTINUED

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used by AIMCo to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive investments:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate

swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands)

The Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G approved by the Ministry of Treasury Board and Finance. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Ministry of Treasury Board and Finance manages the Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board, Minister of Finance has approved the following target policy asset mix:

Asset Class	Target Asset Policy	Actual Asset Mix 2017		Actual Asset Mix 2016	
Interest-bearing securities	15 - 45%	$ 214,866	19.6%	$ 202,985	20.0%
Equities	35 - 70%	575,970	52.7%	521,429	51.5%
Inflation sensitive	15 - 40%	292,299	26.7%	278,337	27.5%
Strategic, tactical and currency investments	(a)	10,416	1.0%	10,138	1.0%
		$ 1,093,551	100.0%	$ 1,012,889	100.0%

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Fund.

a) Credit Risk

i) Debt securities

The Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

The table below summarizes debt securities by counterparty credit rating at March 31, 2017:

Credit rating	**2017**	**2016**
Investment Grade (AAA to BBB-)	75.4%	76.1%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	24.4%	23.9%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Fund's share of securities loaned under this program is $56,005 (2016: $26,058) and collateral held totals $59,425 (2016: $27,596). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 36% (2016: 35%) of the Fund's investments, or $394,838 (2016: $349,424), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 19% (2016: 18%) and the Euro, 4% (2016: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 3.6% of total investments (2016: 3.5%).

The following table summarizes the Fund's exposure to foreign currency investments held in the pools at March 31, 2017:

Currency [a]	2017 Fair Value	2017 Sensitivity	2016 Fair Value	2016 Sensitivity
U.S. dollar	$ 210,966	$ (21,097)	$ 180,303	$ (18,030)
Euro	44,817	(4,482)	40,332	(4,033)
Japanese yen	29,032	(2,903)	26,386	(2,639)
British pound sterling	21,388	(2,139)	21,474	(2,147)
Hong Kong dollar	11,465	(1,146)	10,215	(1,022)
Other foreign currency	77,170	(7,717)	70,714	(7,071)
Total foreign currency investments	$ 394,838	$ (39,484)	$ 349,424	$ (34,942)

[a] Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest rate risk

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 1.2% of total investments (2016: 1.1%).

d) Price risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Fund is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Fund would be approximately 6.2% of total investments (2016: 6.3%). Changes in fair value of investments are recognized in the statement of remeasurement gains and losses.

e) Liquidity risk

Liquidity risk is the risk that the Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Fund are met through income generated from investments, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Fund's future liabilities include transfers to the Ministry of Innovation and Advanced Education and payables for related to purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost-effectively gain

NOTE 4 INVESTMENT RISK MANAGEMENT (in thousands) CONTINUED

access to equity markets in the pools, manage asset exposure within the pools, enhance pooled fund returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Fund's Indirect Share			
By counterparty	Number of counterparties		2017		2016
Contracts in favourable position (current credit exposure)	44	$	5,612	$	20,522
Contracts in unfavourable position	10		(4,133)		(3,932)
Net fair value of derivative contracts	54	$	1,479	$	16,590

i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $5,612 (2016: $20,522) were to default at once.

ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Fund's Indirect Share			
Types of derivatives		2017		2016
Structured equity replication derivatives	$	1,577	$	6,050
Foreign currency derivatives		(665)		10,940
Interest rate derivatives		141		(560)
Credit risk derivatives		426		160
Net fair value of derivative contracts	$	1,479	$	16,590

i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v) Deposits: At March 31, 2017 deposits in futures contracts margin accounts totalled $1,035 (2016: $3,032) and deposits as collateral for derivative contracts totalled $199 (2016: $354).

NOTE 5 NET FINANCIAL ASSETS (in thousands)

Net financial assets represents the difference between the carrying value of financial assets held by the Fund and its liabilities. The following table shows the accumulated investment income and transfers to and from the Fund since its inception in 2000:

	Cumulative since 2000	
	2017	2016
Accumulated net income from operations	$ 700,221	$ 569,042
Transfers from the General Revenue Fund [(a)]	721,430	721,430
Accumulated transfers for research and innovation [(b)]	(433,086)	(397,786)
Accumulated surplus from operations	988,565	892,686
Accumulated net remeasurement gains	104,986	120,203
Carrying value of net financial assets	$ 1,093,551	$ 1,012,889

[(a)] The total accumulated contributions from the GRF include an initial amount of $500 million deposited during the 2000-2001 fiscal year and $21.43 million during the 2003-2004 fiscal year. Additionally, pursuant to Section 8 of the *Access to the Future Act*, $100 million was transferred from the GRF during the 2005-2006 fiscal year and $100 million was transferred from the GRF during the 2006-2007 fiscal year. Under the *Access to the Future Act*, the Fund shall be increased by $500 million in amounts considered appropriate by the President of Treasury Board, Minister of Finance.

[(b)] In accordance with section 12 of the *Alberta Research and Innovation Act* (the Act), the President of Treasury Board, Minister of Finance must, at the request of the Minister of Economic Development and Trade (EDT), pay from the Endowment Fund to EDT, money that, in the opinion of the Alberta Research and Innovation Authority is required by EDT for the furtherance of its objectives. Section 12 of the Act limits annual payments from the Fund to EDT. Payments to EDT may not exceed, in a fiscal year, 4.5% of the average of the market values determined on March 31 of the preceding three fiscal years, and any unused portion of the amount permitted to be paid in that fiscal year may be paid in any subsequent fiscal year.

	2017
Spending limit for year ended March 31, 2017	$ 54,024
Transfers to EDT during 2016-17	(35,300)
Accumulated unused spending limit at March 31, 2017	18,724
4.5% of average market value on March 31, 2015-17	46,470
Spending limit for year ended March 31, 2018	$ 65,194

NOTE 6 INVESTMENT INCOME (in thousands)

The following is a summary of the Fund's investment income (loss) by asset class:

	2017	2016
Interest-bearing securities	$ 13,761	$ 11,691
Equities		
Canadian	8,533	(804)
Global	79,259	35,727
Private	10,651	7,662
	98,443	42,585
Inflation sensitive		
Real estate	20,627	10,245
Infrastructure	5,034	28,794
Timberland	1,713	(276)
	27,374	38,763
Strategic, tactical and currency investments	(952)	(1,923)
	$ 138,626	$ 91,116

NOTE 6 INVESTMENT INCOME (in thousands) CONTINUED

The investment income includes realized gains and losses from disposal of pool units totalling $32,343 (2016: $16,709) and from directly held currency foreign exchange contracts totalling $(32) (2016: $(4,969)). Income distributions from the pools total $106,315 (2016: $79,376).

Income earned in pooled investment funds is distributed to the Fund daily based on the Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 7 INVESTMENT EXPENSES (in thousands)

	2017	2016
Amounts charged by AIMCo for:		
Investment Costs[a]	$ 5,989	$ 6,264
Performance based fees[a]	1,409	1,645
	7,398	7,909
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Fund reporting	49	49
Total investment expenses	$ 7,447	$ 7,958
(Decrease) increase in expenses	(6.4%)	7.7%
Increase in average investments under management	5.1%	5.3%
Increase in value of investments attributable to AIMCo	0.9%	5.8%
Investment expenses as a percent of:		
Dollar earned	5.4%	8.7%
Dollar invested	0.7%	0.8%

(a) Please refer to AIMCo's financial statements for a detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees related to external managers hired by AIMCo.

NOTE 8 INVESTMENT PERFORMANCE (net of investment expenses)

Estimated investment returns are provided as supplementary information. The determination of the estimated return is based on fair values using quoted market prices and estimates of fair value where no quoted market prices are available. The estimated return includes gains and losses that have not been realized. Estimated benchmark returns are based on published market-based indices and estimates where no published index is available.

Time-weighted rates of return, at fair value [(a)]			**Average Annualized Return**	
	2017	**2016**	**5 years**	**10 years**
Net return on investments [(b)]	11.5%	5.8%	11.5%	6.6%
Policy benchmark return [(b)]	10.6%	0.0%	10.2%	6.2%
Value added by investment manager [(c)]	0.9%	5.8%	1.3%	0.4%

(a) The time-weighted rate of return involves the calculation of the return realized by the Fund over a specified period and is a measure of the total proceeds received from an investment dollar initially invested. Total proceeds include cash distributions (interest and dividend payments) and capital gains and losses (realized and unrealized).

(b) Investment returns are provided by AIMCo. The net investment return and policy benchmark return is based on a weighted average of returns for each asset class. Investment returns for assets classified as real estate, private equities, infrastructure, hedge funds and private debt are based on estimates of fair value. For these investments, measurement uncertainty exists because trading activity is infrequent and fair values are derived using valuation techniques which incorporate assumptions that are based on non-observable market data. Reasonably possible alternative assumptions could yield an increase or decrease in the fair value amounts and investment returns reported for these types of investments. Any change in estimated returns, resulting from new information received after the cut-off date for preparation of the Fund's financial statements, will be reflected in the next reporting period.

(c) In the SIP&G , the Ministry of Treasury Board and Finance expects that the investments held by the Fund will return approximately 100 basis points or 1% per annum above the policy benchmark.

NOTE 9 FINANCIAL STATEMENTS

These statements were prepared by the Department of Treasury Board and Finance in accordance with section 11(6) of the Act and are approved by the Department's Senior Financial Officer and Deputy Minister.

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ALBERTA LOTTERY FUND

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Lottery Fund which comprise the statement of financial position as at March 31, 2017, and the statements of operations and change in net financial assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Lottery Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

May 24, 2017

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of dollars)

	Note		2017		2016
Financial Assets					
Cash and cash equivalents	3	$	37,563	$	17,350
Due from Alberta Gaming and Liquor Commission	5		59,045		71,316
			96,608		88,666
Liabilities					
Accounts payable	6	$	43,833	$	35,891
			43,833		35,891
Net Financial Assets		$	52,775	$	52,775
Net Assets		$	52,775	$	52,775

The accompanying notes are an integral part of these financial statements.

Approved by:

BOARD	MANAGEMENT
[original signed by]	[original signed by]
Thorna Lawrence, CPA, CA	Alain Maisonneuve
Audit Committee Chair	Acting President and Chief Executive Officer
Alberta Gaming and Liquor Commission	Alberta Gaming and Liquor Commission

Statement of Operations

STATEMENT OF OPERATIONS

For the year ended March 31
(in thousands of dollars)

	Note	Budget 2017	2017	2016
Revenues				
Proceeds from Provincial Lotteries	7	$ 1,450,644	$ 1,429,604	$ 1,552,747
Interest		425	636	2,743
		1,451,069	1,430,240	1,555,490
Expenses				
Lottery Fund expenditures	1	1,451,069	1,430,240	1,555,490
		1,451,069	1,430,240	1,555,490
Annual Surplus		-	-	-

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

For the year ended March 31
(in thousands of dollars)

	Budget 2017	2017	2016
Annual surplus	$ -	$ -	$ -
Net financial assets, beginning of year	52,775	52,775	52,775
Net Financial Assets, end of year	$ 52,775	$ 52,775	$ 52,775

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31
(in thousands of dollars)

1. Nature of Operations

The Lottery Fund is administered by the Alberta Gaming and Liquor Commission (AGLC) under the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. The Lottery Fund receives proceeds from Provincial Lotteries and makes transfers therefrom in the public interest in order to support thousands of volunteer, public and community-based initiatives.

The *Appropriation Act, 2016* authorizes transfers from the Lottery Fund as presented in the 2016-2017 Estimates, and provides for flexibility in the amount allocated from the Lottery Fund to the General Revenue Fund so that the annual surplus of the Lottery Fund would be zero at the year ended March 31, 2017.

The transfer of funds to certain programs is based on electronic gaming proceeds generated at related gaming facilities, in accordance with government policy direction. For these programs, the amount transferred may differ from the budgeted amount.

The accountability and utilization of Lottery Fund amounts transferred to entities within the Government of Alberta may be determined and confirmed by referencing the respective entity's financial statements.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards (PSAS).

a. Cash Flow

A Statement of Cash Flow is not provided as disclosure in these financial statements is considered to be adequate.

b. Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of accounts receivable and accounts payable are estimated to approximate their carrying values, because of the short term nature of these instruments.

c. Financial Instruments

As the Lottery Fund does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no re-measurement gains and losses and therefore a Statement of Remeasurement Gains and Losses has not been presented.

3. Cash and Cash Equivalents

Cash and cash equivalents consist of deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Province of Alberta. The CCITF is managed with the objective of providing competitive interest income to depositors, while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities, with a maximum term-to-maturity of three years. For the year ended March 31, 2017, securities held by the CCITF had a time-weighted return of 0.9% per annum (March 31, 2016: 0.8% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

4. Related Party Transactions

Related parties are those consolidated, or accounted for, on the modified equity basis in the Province of Alberta's financial statements.

All the transactions, except for interest revenue, of the Lottery Fund are considered related party transactions.

5. Due from Alberta Gaming and Liquor Commission

This amount represents the portion of proceeds from Provincial Lotteries, which has not been transferred by the AGLC to the Lottery Fund at year end due to timing of transfers.

	2017	2016
Due from AGLC, beginning of year	$ 71,316	$ 108,085
Proceeds from Provincial Lotteries	1,429,604	1,552,747
Transfers from AGLC	(1,441,875)	(1,589,516)
Due from AGLC, end of year	$ 59,045	$ 71,316

6. Accounts Payable

Accounts payable consists primarily of outstanding payments to the Department of Treasury Board and Finance.

7. Proceeds from Provincial Lotteries

Proceeds from Provincial Lotteries received by the AGLC are recorded as revenue of the Lottery Fund after the deduction of related operating expenses.

	2017	2016
Net revenue from Provincial Lotteries	$ 1,301,640	$ 1,390,370
AGLC operating expenses	(185,893)	(189,379)
Profit from operations	1,115,747	1,200,991
Loss on disposal of property, equipment and intangible assets	(1,654)	(436)
Net income from ticket lottery	315,511	352,192
Net income from Provincial Lotteries	$ 1,429,604	$ 1,552,747

8. Budget

The 2017 budgeted expenditures were authorized in total by the *Appropriation Act, 2016* on May 27, 2016.

9. Comparative Figures

Certain comparative figures may have been reclassified to conform to the current presentation.

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ALBERTA RISK MANAGEMENT FUND

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Risk Management Fund, which comprise the statement of financial position as at March 31, 2017, and the statements of operations and accumulated surplus, remeasurement gains and losses, change in net debt, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Risk Management Fund as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its change from net financial assets to net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
June 7, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Financial Assets		
Cash and cash equivalents (Note 3)	$ 1,811	$ 2,332
Investments (Note 3)	64,111	59,344
Receivable from Province of Alberta	10	15
Accrued recoveries (Note 5)	29	7
	65,961	61,698
Liabilities		
Accounts payable (Note 6)	360	340
Liability for accrued claims (Note 7)	67,332	54,538
	67,692	54,878
(Net Debt) Net Financial Assets	(1,731)	6,820
(Net Liabilities) Net Assets		
Accumulated surplus from operations	828	7,853
Accumulated remeasurement losses	(2,559)	(1,033)
	$ (1,731)	$ 6,820

Contractual obligations (Note 9)

The accompanying notes are part of these financial statements.

Statement of Change in Net Debt

Year ended March 31, 2017

	($ thousands) 2017 Budget	2017 Actual	2016 Actual
Annual (Deficit) Surplus	$ (352)	$ (7,025)	$ 18,342
Net remeasurement losses		(1,526)	(860)
(Decrease) Increase in (Net Debt) Net Financial Assets		(8,551)	17,482
Net financial assets (net debt), beginning of year		6,820	(10,662)
(Net Debt) Net Financial Assets, End of Year		$ (1,731)	$ 6,820

The accompanying notes are part of these financial statements.

Statement of Operations and Accumulated Surplus

Year Ended March 31, 2017

	($ thousands)		
	2017		2016
	Budget	Actual	Actual
Revenues			
Insurance services			
Province of Alberta departments, funds and agencies	$ 16,370	$ 16,319	$ 16,383
Other entities	1,156	792	746
Subrogation and salvage	300	435	247
Recoveries	-	326	5,706
Investment income	1,540	2,365	1,665
	19,366	20,237	24,747
Expenses			
Insurance claims (Note 8)	13,469	21,180	414
Insurance premiums to insurers	3,652	3,559	3,478
Administration	1,797	1,825	1,751
Investment expenses	-	24	47
Other services	800	674	715
	19,718	27,262	6,405
Annual (deficit) surplus	$ (352)	(7,025)	18,342
Net financial Assests (Net Debt), beginning of year		7,853	(10,489)
Accumulated surplus at end of year		$ 828	$ 7,853

The accompanying notes are part of these financial statements.

Statement of Remeasurement Gains and Losses

Year Ended March 31, 2017

	($ thousands)	
	2017	2016
Unrealized losses on investments	$ (1,795)	$ (860)
Realized loss on investments	269	-
Net remeasurement losses	(1,526)	(860)
Accumulated remeasurement losses, beginning of year	(1,033)	(173)
Accumulated remeasurement losses, end of year	$ (2,559)	$ (1,033)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

Year Ended March 31, 2017

	2017 ($ thousands)	2016 ($ thousands)
Operating Transactions		
Annual (deficit) surplus	$ (7,025)	$ 18,342
Realized losses on disposal of investments	269	-
(Increase) decrease in accrued recoveries	(22)	71
Decrease (increase) in receivables from Province of Alberta	5	(1)
Increase (decrease) in payables	20	(384)
Increase (decrease) in liabilities for accrued claims	12,794	(9,284)
Cash provided by operating transactions	6,041	8,744
Investing Transactions		
Purchase of investments	(15,610)	(17,050)
Proceeds from disposals and repayments	9,048	-
Cash applied to investing transactions	(6,562)	(17,050)
Decrease in Cash and Cash Equivalents	(521)	(8,306)
Cash and Cash Equivalents, Beginning of Year	2,332	10,638
Cash and Cash Equivalents, End of Year	$ 1,811	$ 2,332
Consisting of Deposits in the Consolidated Cash Investment Trust Fund (Note 3)	$ 1,811	$ 2,332

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar amounts in thousands, unless otherwise stated)

NOTE 1 AUTHORITY, PURPOSE AND FINANCIAL STRUCTURE

The Alberta Risk Management Fund (the Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000.

The Fund provides risk management and insurance services to government departments, funds and agencies, members of the Legislative Assembly and others by assuming general and automobile liability and the risk of losses due to automobile physical damage, property damage and crime in exchange for premiums related to the level of risk assumed.

In the ordinary course of business, the Fund insures certain risks for the purpose of limiting its exposure to large or unusual risks. As such, the Fund enters into excess of loss contracts with only the most credit-worthy insurance companies and is required to pay for all losses up to certain predetermined amounts. The insurance companies compensate the Fund for any losses above the agreed predetermined amounts.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards.

The accounting policies of significance to the Fund are as follows:

a) The net debt model has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Fund's financial assets and liabilities.

A (net debt) net financial assets balance indicates the extent of the Fund's governement transfers and operating revenues to (net debt) net assets resulting from settlement of its financial assets and liabilities.

b) Financial Assets are the Fund's financial claims on external organizations as well as cash and investments.

c) The valuation of the liability for accrued claims is accounted for based on an actuarial assessment of the Fund's claim experience using assumptions on an actuarial present value basis to provide an estimate of the required claims reserve. The valuation is completed on an annual basis using the best data and assumptions at the time.

d) In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty that is material in these financial statements exists in the estimation of the Fund's liability for accrued claims. Uncertainty arises because the Fund's actual loss experience may differ, perhaps significantly, from assumptions used in the estimation of the Fund's liability for accrued claims. (see Note 7b).

Liability for accrued claims, recorded as $67.3 million (2016: $54.5 million) in these financial statements, is subject to measurement uncertainty. This is because the ultimate disposition of claims incurred prior to the financial statement date is subject to the outcome of events that have not yet occurred, and any estimate of future costs has inherent limitations due to management's limited ability to predict precisely the aggregate course of future events. Based on an actuarial sensitivity analysis, an estimate of claim liabilities at the high end of a reasonable range is $89.2 million as at March 31, 2017 or $21.9 million higher than the recognized amount. It is possible that actual claims could be even higher than this other probable amount (see Note 7b). While best estimates have been used in reporting the Fund's liability for accrued claims, management considers that it is possible, based on existing knowledge, that changes in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements. Differences between actual results and expectations are adjusted in the period when the actual loss values are known.

e) The fair values of cash, accounts receivable from Province of Alberta, accrued recoveries, accounts payable and liability for accrued claims are estimated to approximate their book values.

f) All revenues are reported using the accrual method of accounting.

g) The Fund's investment portfolio is recorded at fair value (see Note 3). Investments are recognized on a trade date basis.

h) Investment expenses include all amounts charged by the Fund's investment manager, Alberta Investment Management Corporation (AIMCo). Investment expenses are recognized on an accrual basis. Transaction costs are expensed as they are incurred.

i) Accumulated remeasurement gains are unrealized and represent the difference between the fair value and the cost of investments. Changes in accumulated remeasurement gains are recognized in the statement of remeasurement gains and losses. When investments are disposed of (derecognized), any accumulated unrealized loss associated with the investment becomes realized and is included in the net income on the statement of operations and accumulated surplus.

j) In June 2015 the Public Accounting Board issued the following accounting standards:

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**

PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1,2017)

PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.

NOTE 3 CASH AND INVESTMENTS

	($ thousands) 2017	($ thousands) 2016
Cash and Cash Equivalents		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 1,811	$ 2,332
Investments		
Deposits in the Consolidated Cash Investment Trust Fund [(a)]	$ 6	$ 6
General Revenue Short-Term Bond Fund	64,105	59,338
Total investments [(b)] [(c)]	$ 64,111	$ 59,344

a) Consolidated Cash Investment Trust Fund (CCITF): The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositor's capital. The CCITF is a pool that is primarily comprised of short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2017, securities held by the CCITF have a time-weighted return of 0.9% (2016: 0.8%).

b) Statement of Investment Policies and Goals (SIP&G): The SIP&G establishes the framework set by the President of Treasury Board, Minister of Finance for the investments of the Fund, including the responsibilities of the Fund's investment manager, AIMCo. According to the SIP&G, amounts invested in the Fund that are not expected to be shortly reallocated from the Fund are to be invested in the actively managed short-term bonds. The fair value of pool units held in the General Revenue Short-Term Bond Pool (the GRST pool) is based on the Fund's interest in the asset value of the pool. The GRST pool has a market-based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the GRST pool.

c) Fair Value Hierarchy: Investments are classified as Level 2 for purposes of the fair value hierarchy. The fair value hierarchy classifies the quality and reliability of information used to estimate the fair value of investments into three levels with level 1 being the highest quality and reliability. For the level 2 classification, the fair value is estimated using valuation techniques that use market-observable inputs other than quoted market prices. For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Fund is exposed to financial risks associated with the underlying investments held in the GRST pool. These financial risks include credit risk, interest rate risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Interest rate risk is the risk that the value of investments will decrease as market interest rates rise. Liquidity risk is the risk that the Fund will encounter difficulty in meeting its insurance claim obligations as they fall due. The Fund minimizes its liquidity risk by monitoring the level of cash available to meets its obligations and by maintaining a portfolio of investments that is highly liquid.

The investment policies and procedures of the Fund are clearly outlined in the SIP&G. The purpose of the SIP&G is to ensure the Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk.

a) CREDIT RISK

The Fund is exposed to credit risk associated with the underlying debt securities held in the GRST pool. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Fund. The credit quality of financial assets is generally assessed by reference to external credit ratings. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree.

The table below summarizes debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	100.0%	100.0%
Speculative Grade (BB+ or lower)	0.0%	0.0%
Unrated	0.0%	0.0%
	100.0%	100.0%

b) SECURITY LENDING RISK

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Fund's share of securities loaned under this program is $24,871 (2016: $12,421) and collateral held totals $26,259 (2016: $12,857). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of the investments loaned.

c) INTEREST RATE RISK

The Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the GRST pool. Interest rate risk relates to the possibility that the fair value of bonds will change in fair value due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and if, all other variables were held constant, the potential loss in fair value to the Fund would be approximately 2.9% of total investments (2016: 2.9%).

NOTE 5 ACCRUED RECOVERIES

Accrued recoveries represent management's best estimates of amounts that will be recovered for subrogation or salvage. All amounts are considered to be good and recoverable when due.

NOTE 6 ACCOUNTS PAYABLE

	($ thousands) 2017	2016
Payable to Department of Treasury Board and Finance	$ 110	$ 99
Other	250	241
	$ 360	$ 340

NOTE 7 LIABILITY FOR ACCRUED CLAIMS

The total liability for accrued claims of $67,332 (2016: $54,538) is comprised of outstanding claims case reserves and incurred but not reported (IBNR) losses.

a) OUTSTANDING CLAIMS CASE RESERVES

Liability for outstanding claims case reserves represents management's best estimates of outstanding losses and related claims expenses which have been reported but not yet closed, net of participant deductibles and recoveries, if any. The amount reflects management's best estimate of the ultimate cost of settlement after consultation with legal counsel if required.

b) INCURRED BUT NOT REPORTED (IBNR) LOSSES

Liability for IBNR losses is an estimate of liabilities for claims that have been incurred but not yet reported. In addition to a provision for claims that have occurred but are not yet reported, the amount includes a provision for development of outstanding case reserves, a provision for reopened claims, and a provision for claims that have been reported but amounts not assessed.

The actuarial estimate of total liability for accrued claims includes case reserves for reported claims as well as an estimate to provide for both development on case reserves and incurred but not reported losses. The actuarial estimate adjusts for the portion of individual large claims that are ceded to third party insurers.

An actuarial review of the Fund's total liability for accrued claims at March 31, 2017 was carried out by J. S. Cheng & Partners Inc. taking into account the historical claims through March 31, 2017.

The actuarial review was determined using an actuarial present value basis and generally accepted actuarial practices in Canada, including the selection of appropriate assumptions and methods. The assumptions used were developed based on the actuary's best estimates of the Fund's expected loss experience. After consultation with the Fund's actuary, management approved these best estimates.

The major assumptions used were:

Discount rate

The discount rate used was 0.863%.

	2017	2016
Trend rate		
General liability	2.0%	2.0%
Automobile liability	2.0%	2.0%
Property	2.0%	2.0%
Auto physical damage	4.0%	4.0%

Loss development factor

Based on the Fund's historical experience supplemented by insurance industry experience compiled by Insurance Bureau of Canada

	2017	2016
Selected loss rate		
General liability: *Loss per person (Alberta population)*	$ 1.24	$ 1.12
Automobile liability: *Loss per vehicle*	$ 105	$ 105
Property: *Loss per $million property values*	$ 550	$ 540
Auto physical damage: *Loss per vehicle*	$ 250	$ 240

The following is a summary of the impact of various sensitivity tests on the Fund's net liability at March 31, 2017:

Sensitivity Tests	Increase (Decrease) in Net Liabilities *($ million)*
Increase the confidence level of the liability for accrued claims estimate to 90% from 50%.	$ 10.0
Increase the loss development factor assumption by changing the tail factor (time period to final claim settlement) to between 1.01 and 1.10 depending on coverage type, and increasing the trend factor assumption to between 8% and 11%, depending on coverage type.	$ 21.9
Statistical analysis of general liability loss development factors instead of judgmentally selecting loss development factors.	$ (6.6)

NOTE 8 INSURANCE CLAIMS

	($ thousands) 2017	($ thousands) 2016
Total claims payments during the year	$ 8,386	$ 9,698
Change in claims reserves	12,794	(9,284)
	$ 21,180	$ 414

NOTE 9 CONTRACTUAL OBLIGATIONS

The aggregate amounts payable for the unexpired terms of contractual obligations in respect of contracts entered into before March 31, 2017 are as follows:

	($ thousands)
2017-18	361
2018-19	170
2019-20	-
2020-21	-
	$ 531

NOTE 10 RELATED PARTY TRANSACTIONS

As disclosed in the financial statements, the Fund has revenues from the Province of Alberta departments, funds, and agencies of $16,319 (2016: $16,383) and an accounts payable to the Department of Treasury Board and Finance of $108 (2016: $99).

NOTE 11 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the senior financial officer and the deputy minister of Treasury Board and Finance.

PROVINCIAL JUDGES AND MASTERS IN CHAMBERS RESERVE FUND

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Reserve Fund, which comprise the statement of financial position as at March 31, 2017, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Reserve Fund as at March 31, 2017, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 7, 2017

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Assets		
Investments (Note 3)	$ 189,715	$ 164,859
	189,715	164,859
Liabilities		
Amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Note 8)	189,715	164,859
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Increase in assets		
Employer contributions	$ 10,063	$ 11,191
Investment income (Note 5)	18,370	2,289
	28,433	13,480
Decrease in assets		
Investment expenses (Note 7)	774	670
Transfers to Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	2,803	2,450
	3,577	3,120
Increase in amounts owing to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan	(24,856)	(10,360)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	$ -	$ -

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar values in thousands, unless otherwise stated)

NOTE 1 AUTHORITY AND PURPOSE

The Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the Provincial Judges and Masters in Chambers Reserve Fund Directive *(Treasury Board Directive 03-01)*

The Reserve Fund is established to collect contributions from the Province of Alberta and to invest the funds, which are reserved to meet future benefit payments of the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (Unregistered Plan). The Unregistered Plan is established to provide additional pension benefits to Provincial Judges and Masters in Chambers whose pensionable earnings are in excess of the *maximum benefit accrual limit* as set out in the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Reserve Fund has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments and are prepared to assist the Unregistered Plan members and others in reviewing the activities of the Reserve Fund for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to

the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

The Reserve Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Reserve Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Reserve Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Reserve Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Reserve Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Reserve Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

   i. Income distributions from the pools.

   ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Reserve Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the Province of Alberta.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

As at March 31, 2017, current service contributions rates are 42.86% of the pensionable earnings of Provincial Judges and Masters in Chambers that were in excess of the *maximum pensionable salary limit*. The rate was determined by the Unregistered Plan's actuary and approved by the President of Treasury Board, Minister of Finance.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 42.86% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $2,235 (in 2016 annual payment was retroactively adjusted to: $2,235) were made towards the unfunded liability of the Unregistered Plan.

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the Unregistered Plan over the long term.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund's private investments, hedge funds and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve Fund's private investments, hedge funds and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Reserve Fund's private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Reserve Fund's investments are managed at the asset class level for purposes of evaluating the Reserve Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Reserve Fund's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) for the Reserve Fund and the Unregistered Plan approved by the Judges' Pension Plans Investment Committee. The fair value of the pool units is based on the Reserve Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [(a)]				
Asset class	Level 1	Level 2	Level 3	**2017**	**2016**
Interest-bearing securities					
Deposits and short-term securities	$ -	$ 4,083	$ -	$ 4,083	$ 3,936
Bonds and mortgages	-	70,755	5,653	76,408	67,673
	-	74,838	5,653	80,491	71,609
Public equity					
Canadian	21,688	1,626	5,160	28,474	24,554
Global developed	34,777	4,707	11,349	50,833	42,396
	56,465	6,333	16,509	79,307	66,950
Alternatives					
Real estate	-	-	21,640	21,640	20,720
Infrastructure	-	-	6,456	6,456	4,476
Timberland	-	-	2	2	-
	-	-	28,098	28,098	25,196
Strategic and currency investments*	-	5	1,814	1,819	1,104
Total investments	$ 56,465	$ 81,176	$ 52,074	$ 189,715	$ 164,859

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $56,465 (2016: $40,156).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $81,176 (2016: $77,840). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and certain alternative investments totalling $52,074 (2016: $46,863).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2017	**2016**
Balance, beginning of year	$ 46,863	$ 34,066
Investment income *	5,936	1,763
Purchases of Level 3 pooled fund units	18,206	15,652
Sale of Level 3 pooled fund units	(18,931)	(4,618)
Balance, end of year	$ 52,074	$ 46,863

* Investment income includes unrealized gains of $29 (2016: $1,327).

NOTE 3 INVESTMENTS CONTINUED

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Public equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure investments is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for infrastructure investments may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Reserve Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Reserve Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Reserve Fund are clearly outlined in the SIP&G approved by the Judges' Pension Plans Investment Committee. The purpose of the SIP&G is to ensure the Reserve Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Reserve Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Ministry has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2017 ($ thousands)	2017 %	Actual Asset Mix 2016 ($ thousands)	2016 %
Interest-bearing securities	30 - 50%	$ 80,491	42.4	$ 71,609	43.4
Public equities	30 - 50%	79,307	41.8	66,950	40.6
Alternatives	15 - 30%	28,098	14.8	25,196	15.3
Strategic and currency investments	(a)	1,819	1.0	1,104	0.7
		$ 189,715	100.0	$ 164,859	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of market value of the Fund.

a) Credit Risk

i) Debt securities

The Reserve Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

The following table summarizes the Reserve Fund's investment in debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	93.0%	93.6%
Speculative Grade (BB+ or lower)	0.3%	0.0%
Unrated	6.7%	6.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Reserve Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, The Reserve Fund's share of securities loaned under this program is $14,686 (2016: $6,300) and collateral held totals $15,466 (2016: $6,626). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Reserve Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 26% (2016: 25%) of the Reserve Fund's investments, or $49,339 (2016: $41,926), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 14% (2016: 13%) and the Euro, 3% (2016: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 2.6% (2016: 2.5%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2017:

($ thousands)

Currency[a]	2017 Fair Value	2017 Sensitivity	2016 Fair Value	2016 Sensitivity
U.S. dollar	$ 26,084	$ (2,608)	$ 21,926	$ (2,193)
Euro	5,756	(576)	4,834	(484)
Japanese yen	3,617	(362)	3,200	(320)
British pound	2,649	(265)	2,604	(260)
Other foreign currencies	11,233	(1,123)	9,362	(936)
Total foreign currency investments	$ 49,339	$ (4,934)	$ 41,926	$ (4,193)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

c) Interest Rate Risk

The Reserve Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 2.7% (2016: 2.9%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Reserve Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 4.6% (2016: 4.7%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve Fund are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Reserve Fund's main liabilities include transfers payable to the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan and payables related to the purchase of pool units.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2017	2016
Contracts in favourable position (current credit exposure)	41	$ 1,115	$ 1,576
Contracts in unfavourable position	11	(636)	(815)
Net fair value of derivative contracts	52	$ 479	$ 761

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $1,115 (2016: $1,576) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	2017	2016
Structured equity replication derivatives	$ 294	$ 764
Foreign currency derivatives	(3)	229
Interest rate derivatives	44	(299)
Credit risk derivatives	144	67
Net fair value of derivative contracts	$ 479	$ 761

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2017 deposits in futures contracts margin accounts totalled $187 (2016: $559) and deposits as collateral for derivative contracts totalled $ nil (2016: $11).

NOTE 5 INVESTMENT INCOME

The following is a summary of the Reserve Fund's investment income (loss) by asset class:

($ thousands)

	Income	Changes in Fair Value	2017 Total	2016 Total
Interest-bearing securities	$ 4,570	$ (2,033)	$ 2,537	$ 1,415
Public equities				
Canadian	1,643	2,666	4,309	(913)
Foreign	6,402	3,456	9,858	228
	8,045	6,122	14,167	(685)
Alternatives				
Real estate	1,025	258	1,283	1,130
Infrastructure	542	(217)	325	333
	1,567	41	1,608	1,463
Strategic and currency investments	(188)	246	58	96
	$ 13,994	$ 4,376	$ 18,370	$ 2,289

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $1,940 and $2,429 respectively (2016: $(166) and $(6,065) respectively). Realized and unrealized gains and losses on currency hedges total $(26) and $33 respectively (2016: $(112) and $13 respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2017	2016	2015	2014	2013
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	8.9	0.0	12.8	12.7	8.1
Value added (lost) by AIMCo	1.5	1.0	(0.1)	1.3	1.5
Total return on investments [(a)]	**10.4**	**1.0**	**12.7**	**14.0**	**9.6**

[(a)] All investment returns are provided by AIMCo and are net of investment expenses The annualized total return and policy benchmark return (PBR) on investments over five years is 9.5% (PBR: 8.4%) and ten years is 5.7% (PBR: 5.4%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands) 2017	($ thousands) 2016
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 629	$ 588
Performance based fees [(a)]	145	82
Total investment expenses	$ 774	$ 670
Increase in expenses	15.5%	0.4%
Increase in average investments under management	11.0%	10.8%
Increase in value of investments attributed to AIMCo	1.5%	1.0%
Investment expense as a percent of:		
Dollar earned	4.2%	29.3%
Dollar invested	0.4%	0.4%
Investment expenses per member	$ 2,846	$ 2,509

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN

An actuarial valuation of the Unregistered Plan was carried out as at March 31, 2014 by Aon Hewitt and was then extrapolated to March 31, 2017.

As at March 31, 2017 the Unregistered Plan reported an actuarial deficit of $16 million (2016: deficit of $23 million), taking into account the amounts owing from the Reserve Fund.

NOTE 9 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance.

SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan Reserve Fund, which comprise the statement of financial position as at March 31, 2017, and the statement of changes in net assets for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan Reserve Fund as at March 31, 2017, and the changes in its net assets for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 7, 2017

Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Assets		
Investments (Note 3)	$ 119,168	$ 102,293
Receivable from participating employers	-	11
	119,168	102,304
Liabilities		
Amounts owing to the Supplementary Retirement Plan for Public Service Managers	(119,168)	(102,304)
Net Assets	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets

Year Ended March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Increase in assets		
Employer contributions	$ 2,886	$ 3,771
Investment income (Note 5)	14,646	2,132
Transfer from Supplementary Retirement Plan for Public Service Managers	-	300
	17,532	6,203
Decrease in assets		
Investment expenses (Note 7)	668	614
	668	614
Increase in amounts owing to the Supplementary Retirement Plan for Public Service Managers	(16,864)	(5,589)
Change in net assets for the year	-	-
Net assets, beginning of year	-	-
Net assets, end of year	$ -	$ -

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(All dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE RESERVE FUND

The Supplementary Retirement Plan Reserve Fund (Reserve Fund) operates under the authority of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and Treasury Board Directive 05/99.

The Reserve Fund is established to collect contributions from participating employers and to invest the funds, which are reserved to meet future benefit payments of the Supplementary Retirement Plan for Public Service Managers (SRP). The SRP is established effective July 1, 1999 to provide additional pension benefits to eligible public service managers whose pensionable earnings are in excess of the *maximum pensionable salary limit* under the federal *Income Tax Act*.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Reserve Fund has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Reserve Fund to meet future benefit payments and are prepared to assist the SRP members and others in reviewing the activities of the Reserve Fund for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) VALUATION OF ASSETS AND LIABILITIES

Investments are recorded at fair value. As disclosed in Note 3, the Reserve Fund's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Pooled Fund Establishment and Maintenance Order, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to

the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Reserve Fund does not report the financial instruments of the pools on its statement of financial position.

The Reserve Fund becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its pool units. The Reserve Fund reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Reserve Fund is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Reserve Fund's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Reserve Fund's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Reserve Fund's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 5 and includes the following items recorded in the Reserve Fund's accounts:

  i. Income distributions from the pools.

  ii. Changes in fair value of pool units including realized gains and losses on disposal of pool units and unrealized gains and losses on pool units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Reserve Fund to earn investment income (see Note 7). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) LIABILITIES

Accrued liabilities of the Reserve Fund are funded by investment income and contributions from the participating employers. Contribution rates are set by the Minister of Finance, taking into account recommendations of the SRP's actuary.

The rate in effect at March 31, 2017 was 9.9% (2016: 9.9%) of the pensionable salaries of eligible public service managers that were in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The contribution rates were reviewed by the Minister of Finance in 2014 and are reviewed at least once every three years based on recommendations of the Reserve Fund's actuary.

These amounts represent assets held by the Reserve Fund, which are available to meet future benefit payments of the SRP over the long term.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Reserve Fund's private investments, hedge funds, timberland and private real estate investments. Uncertainty arises because the estimated fair values of the Reserve Fund's private investments, hedge funds, timberland and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Reserve Fund's private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Reserve Fund's investments are managed at the asset class level for purposes of evaluating the Reserve Fund's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Reserve Fund's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) for the Reserve Fund and SRP approved by the Supplementary Retirement Pension Plan Committee. The fair value of the pool units is based on the Reserve Fund's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Fund, and units of the pools, within the ranges approved for each asset class (see Note **4**).

($ thousands)

	Fair Value Hierarchy [(a)]			2017	2016
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest bearing securities					
Deposits in CCITF	$ -	$ 1,079	$ -	$ 1,079	$ 699
Bonds, mortgages and private debt	-	18,670	4,427	23,097	19,134
	-	19,749	4,427	24,176	19,833
Equities					
Canadian	16,117	1,261	3,846	21,224	18,602
Global	32,201	4,397	10,765	47,363	39,515
Private	-	-	2,699	2,699	3,121
	48,318	5,658	17,310	71,286	61,238
Alternatives					
Real estate	-	-	13,607	13,607	13,088
Infrastructure	-	-	6,588	6,588	5,139
Timberland	-	-	1,077	1,077	1,002
	-	-	21,272	21,272	19,229
Strategic, tactical and currency investments *	-	123	2,311	2,434	1,993
Total investments	$ 48,318	$ 25,530	$ 45,320	$ 119,168	$ 102,293

* This asset class is not listed in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

At March 31, 2017, investments were allocated to various asset classes, with interest bearing securities comprising 20.3% (2016: 19.4%) of total investments, equities comprising 59.8% (2016: 59.9%), alternatives comprising 17.9% (2016: 18.8%) and strategic opportunities, tactical and currency investments comprising 2.0% (2016: 1.9%).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $48,318 (2016: $33,456).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $25,530 (2016: $25,419). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and alternative investments totalling $45,320 (2016: $43,418).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2017	($ thousands) 2016
Balance, beginning of year	$ 43,418	$ 35,737
Investment income *	5,424	2,228
Purchases of Level 3 pooled fund units	15,174	11,103
Sale of Level 3 pooled fund units	(18,696)	(5,650)
Balance, end of year	**$ 45,320**	**$ 43,418**

* Investment income includes unrealized (losses) gains of $(468) (2016: $1,466).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. Infrastructure investments are valued similar to private equity investments. The fair value of timberland investments is appraised annually by independent third party evaluators.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consists of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Reserve Fund is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Reserve Fund will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Reserve Fund are clearly outlined in the SIP&G approved by the Supplementary Retirement Pension Plan Committee. The purpose of the SIP&G is to ensure the Reserve Fund is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Plan Committee manages the Reserve Fund's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Actuarial liabilities of the Reserve Fund are primarily affected by the long-term real rate of return expected to be earned on investments. Assets are managed for the SRP as a whole, including the Retirement Compensation Arrangement (RCA). In order to earn the best possible return at an acceptable level of risk, the Ministry has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix
Interest bearing securities	25 - 45%
Equities	35 - 60%
Alternatives	12.5 - 30%
Strategic, tactical and currency investments	(a)

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Reserve Fund's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at their discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

The Reserve Fund is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Reserve Fund's investment in debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	83.9%	84.7%
Speculative Grade (BB+ or lower)	0.2%	0.0%
Unrated	15.9%	15.3%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Reserve Fund is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Reserve Fund's share of securities loaned under this program is $7,506 (2016: $3,607) and collateral held totals $7,964 (2016: $3,832). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Reserve Fund is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investmens denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 40% (2016: 41%) of the Reserve Fund's investments, or $47,570 (2016: $41,473), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 22% (2016: 22%) and the Euro, 5% (2016: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 4.0% (2016: 4.1%).

The following table summarizes the Reserve Fund's exposure to foreign currency investments held in the pools at March 31, 2017:

	($ thousands)			
	2017		**2016**	
Currency[a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 25,702	$ (2,570)	$ 22,043	$ (2,204)
Euro	5,451	(545)	4,539	(454)
Japanese yen	3,497	(350)	3,027	(303)
British pound	2,578	(258)	2,470	(247)
Brazilian real	1,350	(135)	886	(89)
Australian dollar	1,216	(122)	1,056	(105)
Other foreign currencies	7,776	(777)	7,452	(745)
Total foreign currency investments	$ 47,570	$ (4,757)	$ 41,473	$ (4,147)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Fund's net assets.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

c) Interest Rate Risk

The Reserve Fund is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 1.4% (2016: 1.4%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Reserve Fund is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Reserve Fund would be approximately 6.9% (2016: 7.2%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Reserve Fund will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Reserve Fund are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The Reserve Fund's main liabilities include transfers payable to the Supplementary Retirement Plan for Public Service Managers and payables related to the purchase of pool units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Reserve Fund has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	2017	2016
Contracts in favourable position (current credit exposure)	44	$ 830	$ 1,609
Contracts in unfavourable position	10	(513)	(631)
Net fair value of derivative contracts	54	$ 317	$ 978

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $830 (2016: $1,609) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 4. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share	
	($ thousands)	
Types of derivatives used in pools	**2017**	**2016**
Structured equity replication derivatives	$ 284	$ 706
Foreign currency derivatives	(40)	316
Interest rate derivatives	18	(62)
Credit risk derivatives	55	18
Net fair value of derivative contracts	$ 317	$ 978

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2017 deposits in futures contracts margin accounts totalled $137 (2016: $363) and deposits as collateral for derivative contracts totalled $23 (2016: $18).

NOTE 5 INVESTMENT INCOME

The following is a summary of the Reserve Fund's investment income (loss) by asset class:

($ thousands)

	Income	Changes in Fair Value	2017 Total	2016 Total
Interest bearing securities	$ 1,367	$ (679)	$ 688	$ 590
Equities				
Canadian	1,223	1,995	3,218	(709)
Global	5,998	3,249	9,247	179
Private	381	(288)	93	237
	7,602	4,956	12,558	(293)
Alternatives				
Real estate	646	162	808	720
Infrastructure	645	(218)	427	713
Timberland	57	73	130	12
	1,348	17	1,365	1,445
Strategic, tactical and currency investments	(244)	279	35	390
	$ 10,073	$ 4,573	$ 14,646	$ 2,132

The change in fair value of pool units includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $2,055 and $2,516 respectively (2016: $(279) and $(3,472) respectively). Realized and unrealized gains and losses on currency hedges total $(111) and $113 respectively (2016: $(158) and $89 respectively).

Income earned in pooled investment funds is distributed to the Reserve Fund daily based on the Reserve Fund's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 6 INVESTMENT RETURNS

The following is a summary of investment returns (losses):

	2017	2016	2015	2014	2013
	in per cent				
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	10.4	(0.7)	14.0	13.6	8.6
Value added (lost) by AIMCo	1.3	2.2	(1.1)	0.5	1.6
Total return on investments [a]	**11.7**	**1.5**	**12.9**	**14.1**	**10.2**

---

[a] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.0% (PBR: 9.1%) and ten years is 6.1% (PBR: 6.1%).

NOTE 7 INVESTMENT EXPENSES

	($ thousands) 2017	($ thousands) 2016
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 521	$ 533
Performance based fees [(a)]	147	81
Total investment expenses	$ 668	$ 614
Increase (decrease) in expenses	8.8%	(1.1%)
Increase in average investments under management	11.2%	10.8%
Increase in value of investments attributed to AIMCo	1.3%	2.2%
Investment expense as a percent of:		
Dollar earned	4.6%	28.8%
Dollar invested	0.6%	0.6%
Investment expenses per member	$ 284	$ 271

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

NOTE 8 SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS (SRP)

An actuarial valuation of the SRP was carried out as at December 31, 2015 by Aon Hewitt. and was then extrapolated to December 31, 2016.

As at December 31, 2016 the SRP reported an actuarial deficit of $50.0 million (2015: deficit of $16.3 million), taking into account the amounts receivable from Reserve Fund.

NOTE 9 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 10 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance.

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ALBERTA CAPITAL FINANCE AUTHORITY

Financial Statements

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These Alberta Capital Finance Authority (ACFA) Financial Statements are a copy from the ACFA 2016 Annual Report. A complete copy of the ACFA Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ACFA website at www.acfa.gov.ab.ca.

Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Shareholders of the Alberta Capital Finance Authority

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Capital Finance Authority, which comprise the statement of financial position as at December 31, 2016, and the statements of operations and accumulated operating surplus, remeasurement gains and losses and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Capital Finance Authority as at December 31, 2016, and the results of its operations, its remeasurement gains and losses, changes in its net financial debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

March 23, 2017

Edmonton, Alberta

Statement Of Financial Position

As at December 31, 2016 *(in thousands of dollars)*	2016	2015
Assets		
Cash (Note 3)	$ 13,349	$ 170,815
Restricted cash (Note 3)	497	497
Accounts receivable	88	35
Accrued interest receivable on loans to local authorities	102,603	105,511
Loans to local authorities (Note 4)	15,566,824	15,099,678
Derivatives in favourable position (Note 6)	969,539	1,025,365
	16,652,900	**16,401,901**
Liabilities		
Accounts payable	560	585
Accrued interest payable on debt	35,896	30,035
Debt (Note 5, Schedule 1)	15,406,108	15,165,145
Derivatives in unfavourable position (Note 6)	1,660,746	1,672,246
	17,103,310	16,868,011
Net financial debt	**(450,410)**	**(466,110)**
Non-financial assets		
Prepaid expenses	-	3
Tangible capital assets (Net of accumulated amortization $12; 2015 - $8)	18	22
	18	25
Accumulated deficit	**$ (450,392)**	**$ (466,085)**
Accumulated deficit is comprised of:		
Share capital: issued and fully paid (Note 7)	63	63
Accumulated operating surplus (Note 8)	405,406	351,727
Accumulated remeasurement losses	(855,861)	(817,875)
Share Capital and Accumulated Deficit	**$ (450,392)**	**$ (466,085)**

Contractual obligations and commitments are found in Note 12.

The accompanying notes and schedule are an integral part of these financial statements.

These financial statements were reviewed by the Audit Committee and approved by the Board of Directors.

[Original signed by Frank Hawkins,
Acting Chair of the Board]

[Original signed by Ronald Ritter,
Chair of Audit Committee]

Statement Of Operations And Accumulated Operating Surplus

For the year ended December 31, 2016 *(in thousands of dollars)*	Budget (Note 13)	2016	2015
Interest Income			
Loans	$ 591,002	$ 579,025	$ 583,821
Loan swaps (pay fixed, receive floating)	(371,316)	(343,218)	(332,793)
Investments	294	2,066	694
	219,980	237,873	251,722
Interest Expense			
Debt	373,150	342,517	358,505
Debt swaps (receive fixed, pay floating)	(224,546)	(183,838)	(185,137)
Amortization of net discounts on debt	14,041	20,704	15,875
Amortization of commission fees	4,392	4,101	4,079
	167,037	183,484	193,322
Net interest income	**52,943**	**54,389**	**58,400**
Other Income			
Realized gain on derivatives (Note 11 (g))	-	-	179,680
Loan prepayment fees (Note 6)	-	339	310
		339	179,990
Net interest income and other income	**52,943**	**54,728**	**238,390**
Non-Interest Expense			
Realized loss on foreign exchange (Note 11 (g))			179,680
Administration and office expenses (Note 9, 10)	1,103	1,045	1,075
Amortization of tangible capital assets	4	4	4
Non-interest and other expenses	1,107	1,049	180,759
Operating surplus	51,836	53,679	57,631
Accumulated operating surplus, beginning of year	360,494	351,727	294,096
Accumulated operating surplus, end of year	**$ 412,330**	**$ 405,406**	**$ 351,727**

The accompanying notes and schedule are an integral part of these financial statements.

Statement Of Remeasurement Gains And Losses

For the year ended December 31, 2016 *(in thousands of dollars)*	2016	2015
Derivatives		
Accumulated remeasurement losses on derivatives, beginning of year	$ (603,141)	$ (463,077)
Remeasurement (losses) gains – fair value of derivatives	(49,163)	39,616
Realized gains – reclassified to statement of operations (Note 11(g))	-	(179,680)
Net remeasurement losses on derivatives for the year	(49,163)	(140,064)
Accumulated remeasurement losses on derivatives, end of year	**(652,304)**	**(603,141)**
Foreign Exchange		
Accumulated remeasurement losses on foreign exchange, beginning of year	(214,734)	(169,454)
Remeasurement gains (losses) – foreign currency translation	11,177	(224,960)
Realized losses – reclassified to statement of operations (Note 11(g))		179,680
Net remeasurement gains (losses) on foreign exchange for the year	11,177	(45,280)
Accumulated remeasurement losses on foreign exchange, end of year	**(203,557)**	**(214,734)**
Accumulated remeasurement losses, end of year	**$ (855,861)**	**$ (817,875)**

The accompanying notes and schedule are an integral part of these financial statements.

Statement Of Cash Flows

For the year ended December 31, 2016 *(in thousands of dollars)*	2016	2015
Operating Activities		
Interest received		
Loans	$ 581,933	$ 585,169
Investments	2,014	660
Debt swaps (receive fixed, pay floating)	184,075	182,292
Loan prepayment fees	339	310
Interest paid		
Debt	(336,655)	(359,515)
Discounts paid at debt maturity	(17,545)	(12,960)
Premiums received at debt issue		1,859
Commission fees	(1,350)	(4,056)
Loan swaps (pay fixed, receive floating)	(348,291)	(322,110)
Administration and office expenses	(1,069)	(1,085)
Cash flows from operating activities	**63,451**	**70,564**
Investing Activities		
Loan principal repayments	1,110,323	1,119,826
Loans issued	(1,577,469)	(1,459,265)
Cash flows used in investing activities	**(467,146)**	**(339,439)**
Financing Activities		
Debt issued	12,578,684	9,498,090
Debt redemption	(12,332,455)	(9,284,730)
Proceeds on maturity of cross currency swap		179,680
Cash flows from financing activities	**246,229**	**393,040**
Net (decrease) increase in cash	(157,466)	124,165
Cash, beginning of year	170,815	46,650
Cash, end of year	**$ 13,349**	**$ 170,815**

The accompanying notes and schedule are an integral part of these financial statements.

Notes To The Financial Statements

December 31, 2016 *(in thousands of dollars, except share amounts)*

NOTE 1 – AUTHORITY

The Alberta Capital Finance Authority ("ACFA") operates under the authority of the *Alberta Capital Finance Authority Act*, Chapter A-14.5, Revised Statutes of Alberta 2000, as amended. Under the Act, ACFA is restricted to making loans only to its shareholders for capital purposes.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

The financial statements have been prepared in accordance with Canadian public sector accounting standards ("PSAS") as recommended by the Public Sector Accounting Board of the Chartered Professional Accountants of Canada. Significant accounting policies are as follows:

(a) Measurement Uncertainty

The preparation of financial statements in accordance with PSAS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the year. Actual results could differ from these estimates. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Measurement uncertainty exists in the collectability of the loans to local authorities and the estimate of fair value of derivative contracts.

While best estimates have been used for reporting items subject to measurement uncertainty, ACFA considers it possible, based on existing knowledge, that change in future conditions in the near term could require a material change in the recognized amounts. Near term is defined as a period of time not to exceed one year from the date of the financial statements.

(b) Valuation of Financial Instruments

Financial instruments are any contracts that give rise to financial assets of one entity and financial liabilities or equity instruments of another entity. Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial liabilities are any liabilities that are contractual obligations: to deliver cash or another financial asset to another entity; or to exchange financial instruments with another entity under conditions that are potentially unfavourable.

Notes To The Financial Statements

(b) Valuation of Financial Instruments (Continued)

ACFA's financial assets and financial liabilities are generally measured as follows and as further described in this note:

Financial Statement Component	Measurement
Cash and restricted cash	Cost
Accounts receivable (payable)	Cost
Accrued interest receivable on loans to local authorities	Cost
Loans to local authorities	Amortized cost
Derivatives in favourable (unfavourable) position	Fair value
Accrued interest payable on debt	Cost
Debt	Amortized cost
Embedded derivatives	Fair value

(c) Cash

Cash includes cash on hand, cash on demand deposit in the Province of Alberta's Consolidated Cash Investment Trust Fund ("CCITF") including any allocated interest not yet transferred to CCITF participants, and foreign currency bank accounts denominated in Australian dollar, European Euro, and US dollar. ACFA's cash balances in CCITF are used for operations or are restricted for unredeemed coupons. CCITF holds investments in primarily short-term and mid-term interest bearing securities which have a maximum term to maturity of less than three years.

(d) Loans to Local Authorities

The carrying value of loans is recorded at amortized cost. Accrued interest receivable on loans is reported separately from the carrying value on the statement of financial position. Loan discounts are amortized to income over the term of the loan using the effective interest method, and are included in the carrying value of the loan.

Impairment losses are recognized in the statement of operations. Where there is no longer reasonable assurance of timely collection of the full amount of principal and interest on a loan, a specific provision for credit loss is made and the carrying value of the loan is reduced to its estimated net recoverable value.

Interest revenue on loans is recognized on an accrual basis and is measured using the effective interest method. Interest revenue ceases to be accrued on loans when the collectability of either principal or interest is not reasonably assured.

(e) Debt

The carrying value of debt, including transaction costs, is recorded at amortized cost. Accrued interest payable on debt is reported separately from the carrying value on the statement of financial position. Debt premiums and discounts and underwriting commissions arising from the issuance of debt are amortized over the term of the debt using the effective interest method, and are included in the carrying value of the debt.

Interest expense on debt is recognized on an accrual basis and is measured using the effective interest method.

Notes To The Financial Statements

(f) Derivative Financial Instruments

Derivative contracts for interest rate swaps and cross-currency interest rate swaps are recorded at fair value on the statement of financial position and changes in fair value are recorded as unrealized gains and losses in the statement of remeasurement gains and losses. When a financial instrument is derecognized, remeasurement gains or losses are reclassified to the statement of operations. Any transaction costs are expensed.

Fair value is the only relevant basis of measurement for derivative contracts because the historical cost is at most nominal. The fair value depicts the market's assessment of the present value of the net future cash flows directly or indirectly embodied in a derivative contract discounted to reflect both current interest rates and the market's assessment of the risk the cash flows will not occur. Fair values are determined using third party valuation software that generates a discount curve based on observable market rates and swap spreads.

Fair values have been segregated between those contracts which are in favourable positions (positive fair value) and those contracts which are in unfavourable positions (negative fair value) and are recorded as derivative assets and derivative liabilities respectively on the statement of financial position.

Net interest paid or received on the pay fixed, receive floating interest rate swaps related to loans is presented separately as part of interest income, and the net interest paid or received on the receive fixed, pay floating interest rate swaps related to debt is presented separately as part of interest expense. Loan swap interest revenue and debt swap interest expense includes accrued interest.

Only contractual obligations entered into or modified on or after January 1, 2013 are evaluated for the existence of embedded derivatives. An embedded derivative is separated from the host contract and accounted for as a derivative when all of the following conditions are met:

i. The economic characteristics and risks of the embedded derivative are not closely related to the economic characteristics and risks of the host contract;

ii. A separate instrument with the same terms as the embedded derivative would meet the definition of a derivative; and

iii. The hybrid, combined instrument is not measured at fair value.

(g) Non-Financial Assets

Prepaid expenses and tangible capital assets are non-financial assets, and are accounted for by ACFA as they can be used to provide services in future periods. These assets do not normally provide resources to discharge the liabilities of ACFA unless they are sold. Tangible capital assets are recorded at historical cost and amortized on a straight line basis over the estimated useful lives of the assets. Tangible capital assets are written down when conditions indicate they no longer contribute to ACFA's ability to provide services, or when the value of future economic benefits associated with them are less than their net book values. Write downs are expensed in the statement of operations.

Notes To The Financial Statements

(h) Transaction Costs

Transaction costs include fees and commissions paid to agents, advisors and brokers. Transaction costs do not include debt premiums or discounts, financing costs or internal administrative or holding costs. Transaction costs paid, discounts paid at debt redemption, premiums received at debt issuance and interest paid are presented in the statement of cash flows as operating activities.

(i) Foreign Currency Translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the year end rate of exchange. Operating revenues and expenses related to foreign currency transactions are translated into Canadian dollars using the rate of exchange for the day. Unrealized foreign exchange gains and losses on long term monetary items are accumulated in the statement of remeasurement gains and losses until settlement, at which point, the cumulative amount is reversed and recognized in the statement of operations.

(j) Net Financial Debt Model of Presentation

A statement of changes in net financial debt has not been provided since the information that would be presented in that statement is readily apparent from the other financial statements and related notes. Net financial debt is reported in the statement of financial position. Net financial debt is the difference between financial liabilities and financial assets. It provides an indicator of future revenue requirements and on an entity's ability to finance its activities and meet its liabilities and commitments.

NOTE 3 - CASH

	2016	2015
Cash in CCITF	**$ 13,349**	**$170,815**
Restricted cash in CCITF	**$ 497**	**$ 497**

For the year ended December 31, 2016, deposits in CCITF had a time-weighted return of 0.89% per annum (2015 - 0.93% per annum). Restricted cash in CCITF is set aside for outstanding debt obligations on unredeemed coupons and bonds.

Notes To The Financial Statements

NOTE 4 – LOANS TO LOCAL AUTHORITIES

	2016		2015	
Municipal authorities, regional services commissions, and Metis settlements	$ 10,333,808	67%	$ 10,148,528	67%
Regional airport authorities	3,765,793	24%	3,555,288	24%
Educational and health authorities	1,467,223	9%	1,395,862	9%
Amortized cost	**$15,566,824**	**100%**	**$15,099,678**	**100%**

Credit risk is the risk of loss due to borrowers failing to meet their obligations to ACFA. Historically, ACFA has not needed to record any provisions or allowances regarding credit losses nor has it suffered any such losses. ACFA has established policies which provide for the approval and monitoring of all lending activity. These policies include establishing clear lines of authority for decision making and for accountability. For loan applications by applicants who:

i. have exceeded the borrowing limits established under their governing legislation;

ii. are considered to be in financial difficulty;

iii. have not met the terms of the ACFA's lending policies; or

iv. are referred to the Board of Directors for any reason;

the loan must be approved by the Board of Directors, who may consider the loan application on the recommendation of the President. ACFA maintains a loan portfolio consisting of several different borrower categories, each with their own source of security to ensure repayment. The major categories of borrowers are as follows:

a. Cities, towns, villages, specialized municipalities, counties, municipal districts, irrigation districts, regional services commissions and Metis settlements account for a majority of loan assets held by ACFA. This borrower category, excluding Metis settlements, is regulated by the *Municipal Government Act*, which stipulates specific debt limits and debt servicing limits. The aforementioned group of borrowers is required to agree to raise and levy taxes and or fees in an amount sufficient to pay their indebtedness to ACFA as per the signed master loan agreement.

b. Regional airport authorities utilize airport improvement fees to ensure repayment of existing loans. Security is also taken in the form of adequate land registration.

c. Educational and health authorities have terms, conditions, and security specific to their respective loan agreements.

As at and for the year ended December 31, 2016, all loans were performing in accordance with related terms and conditions and none were in arrears, nor were any loans considered impaired. ACFA's maximum exposure to credit risk is represented by the carrying amount of its loans at the reporting date. Additional detail on the contractual pricing and effective interest rates of outstanding loans is provided in Note 11 (d).

Notes To The Financial Statements

NOTE 5 – DEBT

	2016	2015
Contractual principal	$ 15,459,681	$ 15,219,546
Unamortized net discounts	(37,871)	(35,947)
Unamortized commission fees	(15,702)	(18,454)
	$ 15,406,108	**$ 15,165,145**

The debt of ACFA is fully guaranteed by the Province of Alberta. Since April, 2011 all ACFA debt is borrowed by the Province of Alberta. The Province of Alberta then on-lends the money to ACFA for loan disbursement and cash management (Schedule 1).

For the next five years, contractual debt redemption requirements by debt type, with the assumption all debt is redeemed at the maturity date, are as follows:

	Short-term	Floating	Fixed	Total
2017	$ 2,300,000	$	$ 2,755,620	(a) $ 5,055,620
2018		1,000,000	600,000	1,600,000
2019			275,000	275,000
2020		480,000	1,322,367	1,802,367
2021				
	2,300,000	1,480,000	4,952,987	8,732,987
Thereafter			6,726,694	(b) 6,726,694
	$ 2,300,000	**$ 1,480,000**	**$11,679,681**	**$ 15,459,681**

NOTES

a. Includes $600,000 USD ($805,620 CAD) fixed term debt maturing June 21, 2017 translated at the foreign exchange rate at the reporting date.

b. Includes $600,000 USD ($805,620 CAD) fixed term debt maturing August 17, 2026, $125,000 AUD ($121,338 CAD) fixed term debt maturing December 14, 2026, and €175,000 EUR ($247,957 CAD) fixed term debt maturing December 1, 2043 translated at the foreign exchange rates at the reporting date.

Additional detail on the contractual pricing and effective interest rates of outstanding debt is provided in Note 11 (d).

NOTE 6 - DERIVATIVE FINANCIAL INSTRUMENTS

A derivative is a financial contract with the following characteristics: its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or other variable; it requires no initial net investment or the initial investment is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors; and it is settled in the future.

To minimize ACFA's interest rate risk on loans and debt issued after January 1, 2004, interest rate swaps may be used to swap fixed rate interest on loans and debt to floating rate so that floating rates paid and received incorporate changes in the market rates at approximately the same time. Interest received on loans to local authorities at fixed rates is swapped so that interest is received at floating rates instead. Loan swaps involve the receipt of floating rate cash flows from the counterparty in exchange for the payment of fixed rate cash flows to the counterparty. Interest paid on debt at fixed rates is swapped so that interest is paid at floating rates instead. Debt swaps involve the payment of floating rate cash flows to the counterparty in exchange for the receipt of fixed rate cash flows from the counterparty.

The notional amounts of interest rate swaps represent the amount to which the fixed and floating rates are applied in order to calculate the exchange of cash flows. The outstanding notional amounts are not recorded in the statement of financial position. They represent the volume of outstanding transactions and do not represent the potential gain or loss associated with the market risk or credit risk of such instruments. It is not ACFA's normal practice to terminate swaps before maturity and realize gains or losses, unless there is a valid business reason to do so. Swaps are intended to be held to maturity to reduce interest rate risk, but may be unwound with prepayment fee if a large loan prepayment occurs. Penalties imposed by the counterparty are in turn recovered from the local authority according to the Stop-Loss Settlement Policy so there is no financial loss to ACFA. During the year, a prepayment on loan resulted in a swap with a notional value of $150,000 to be unwound. A prepayment fee of $1,425 was recovered from the local authority and remitted to the
swap counterparty.

Interest rate swaps include the following outstanding cross currency swaps: Receive fixed on an original notional value of $1,200,000 USD (2015 – $600,000 USD) and pay floating on an original notional value of $1,404,600 CAD (2015 – $617,400 CAD). Receive fixed on an original notional value of $125,000 AUD (2015 – nil) and pay floating on an original notional value of $118,437 CAD (2015 – nil). Receive fixed on an original notional value of €175,000 EUR (2015 – nil) and pay floating on an original notional value of $255,675 CAD (2015 – nil). To minimize its foreign currency risk on debt, cross currency interest rate swaps are used as described in Note 11 (g).

The outstanding notional amounts of loan and debt interest rate swaps by maturity date are summarized as follows:

Maturities	2017	2018 to 2020	2021 and after	Total
Interest rate swaps, December 31, 2016	**$ 2,839,740**	**$ 2,615,731**	**$ 20,178,181**	**$ 25,633,652**
	2016	2017 to 2019	2020 and after	Total
Interest rate swaps, December 31, 2015	**$ 837,529**	**$ 4,196,270**	**$ 19,093,656**	**$ 24,127,455**

At December 31, 2016, derivatives in favourable and unfavourable positions, as reported on the statement of financial position, include contractual amounts of accrued interest receivable and payable, respectively, as follows:

	2016	2015
Accrued interest receivable on debt swaps	$ 16,189	$ 16,426
Accrued interest payable on loan swaps	$ 55,092	$ 60,166

Notes To The Financial Statements

ACFA classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. When measurement of an item requires the use of inputs from more than one level, the measurement level attributable is determined on the basis of the lowest level input that is significant to the fair value measurement in its entirety. The fair value hierarchy used has the following levels:

Level	Fair Value Hierarchy
Level 1	Fair value is based on unadjusted, quoted prices in active markets, such as a public exchange, for identical assets or liabilities;
Level 2	Fair value is based on model-based valuation methods that make use of inputs, other than quoted prices included within level 1, that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices);
Level 3	Fair value is based on valuation methods where inputs for the asset or liability are not based on observable market data (unobservable inputs) and the inputs have a significant impact on the valuation.

Derivative financial instruments recorded at fair value on the statement of financial position are classified as level 2. During the year, no transfers occurred between any of the levels on the fair value hierarchy.

The fair value of interest rate swaps has been calculated using valuation techniques that employ reputable and reliable application software to value derivatives. Observable short and long term rates in the money market and Canadian bond market, as well as swap spreads obtained from financial institutions, are used to develop an interest rate curve to discount derivative cash flows. For cross currency swaps, foreign exchange rates at the valuation date are used. As at the reporting date, the estimated sensitivity of the net fair value of derivatives to a 25 basis point increase and a 25 basis point decrease in interest rates is an increase in fair value of $158,028 (2015 - $164,201) and a decrease in fair value of $163,706 (2015 - $170,388), respectively.

Current credit exposure is limited to the amount of loss ACFA would suffer if every counterparty to which ACFA were exposed were to default at once, and is represented by the current replacement cost of all outstanding contracts in a favourable position. ACFA is part of the exposure limit established for the Province of Alberta and actively monitors its exposure and minimizes credit risk by only dealing with counterparties believed to have a good credit standing. Current and potential exposure is regularly reviewed against established limits on a counterparty basis.

Under the Province of Alberta's master agreement with counterparties, ACFA can, in the event of a counterparty default, net its favourable and unfavourable positions with the counterparty. In addition, under the agreement, several Credit Support Annexes have been signed with counterparties which may require ACFA or the counterparty to provide collateral based on established thresholds, which further enhances ACFA's credit position. As at December 31, 2016, $10,126 (2015 - nil) in non-cash collateral on net unfavorable positions has been posted to one counterparty on ACFA's behalf, and a total of $108,256 (2015 - $93,272) in non-cash collateral on net favorable positions from two counterparties has been posted on ACFA's behalf.

Derivative assets and liabilities are presented at gross fair value on the statement of financial position. Although the amounts do not qualify for offset since default has not occurred, derivatives in favourable position of $821,731 at December 31, 2016 (2015 - $884,710) are subject to master netting arrangements against unfavourable positions of $1,617,025 (2015 - $1,617,025), which reduces ACFA's credit exposure by $821,731 (2015 - $884,710).

Notes To The Financial Statements

NOTE 7 – SHARE CAPITAL

Share capital is valued at $10 per share. Voting rights for classes B to E, as established in legislation, relate only to the election of a director representing the shareholder's class. Further particulars of share capital are as follows:

			2016		2015	
Class	Restricted to	Number of Shares Authorized	Issued and Fully Paid	Total Dollar Amount	Issued and Fully Paid	Total Dollar Amount
A	Province of Alberta	4,500	4,500	$ 45,000	4,500	$ 45,000
B	Municipal, airport and health authorities	1,000	885	8,850	885	8,850
C	Cities	750	589	5,890	589	5,890
D	Town and villages	750	277	2,770	280	2,800
E	Educational authorities	500	76	760	75	750
Total		**7,500**	**6,327**	**$ 63,270**	**6,329**	**$ 63,290**

During the year, one Class E share was issued (2015 - two Class B shares were issued and one Class C share was issued), and three Class D shares were cancelled (2015 - one Class D share was cancelled).

NOTE 8 – CAPITAL MANAGEMENT

ACFA is an agent of the Crown in right of Alberta and a provincial corporation whose debt is fully guaranteed by the Province of Alberta. This allows ACFA access to capital markets to obtain debt financing at a cost commensurate with the Province of Alberta's credit rating.

The business of ACFA is to provide its shareholders with flexible financing for capital projects and to manage its assets and liabilities and business affairs in such a manner so as to enhance its ability to effectively carry out its activities in an economical and effective manner.

ACFA's objective when managing capital is to safeguard its ability to continue as a going concern, to continue to benefit its shareholders by providing loans on a prudent basis. Net assets for capital management purposes are defined as accumulated operating surplus. ACFA has operated effectively in accordance with its capital objective as net assets for capital management purposes as at December 31, 2016 were $405,406 (2015 - $351,727). Capital management objectives, policies and procedures are unchanged since the preceding year.

Notes To The Financial Statements

NOTE 9 – DIRECTOR AND AUDIT COMMITTEE FEES, AND RELATED PARTY TRANSACTIONS

Director and Audit Committee fees paid by ACFA are as follows:

	2016		2015	
	Number of Positions	Total	Number of Positions	Total
Board and Audit Committee Chairs	2	$ 7	2	$ 9
Board and Audit Committee	11	22	11	25
	13	**$ 29**	**13**	**$ 34**

There are two board members who are employees of the Province of Alberta and do not receive compensation from ACFA. The Audit Committee Chair and Audit Committee members are also members of the Board of Directors.

ACFA has no employees. Its operations are managed by staff of Alberta Treasury Board and Finance, which is considered a related party. Other related parties are those entities consolidated or accounted for on the modified equity basis in the Province of Alberta's financial statements, including local authorities that ACFA has issued loans to, such as educational and health authorities consolidated by Alberta Education, Alberta Advanced Education or Alberta Health, as well as the Province of Alberta on-lending debt to ACFA. Loans to local authorities and debt on the statement of financial position, as well as the associated income and expense on the statement of operations and accumulated operating surplus, include amounts with related parties incurred in the normal course of business and are recorded at amounts of consideration agreed upon between the related parties.

Included in administration and office expenses is the amount of $797 (2015 - $799) for salaries, services or goods paid to related parties within the Province of Alberta at the amount of consideration agreed upon between the related parties. Included in accounts payable is the amount of $55 (2015 - $80) due to related parties at December 31, 2016.

NOTE 10 – EXPENSE BY OBJECT

	Budget	2016	2015
Salaries and benefits	$ 692	$ 660	$ 666
Services	253	214	224
Contract services with related parties	135	135	135
Goods	5	11	31
Financial transactions and other	18	25	19
Amortization of tangible capital assets	4	4	4
	$ 1,107	**$ 1,049**	**$ 1,079**

Notes To The Financial Statements

NOTE 11 - FINANCIAL RISK MANAGEMENT

(a) Framework

ACFA's management is accountable and responsible for monitoring performance and reporting to the Board of Directors and recommending changes to existing policies, including the Derivative Policy. The Audit Committee assists in monitoring the corporate governance, accountability processes and control systems in ACFA and reports to the Board of Directors. The Asset Liability Committee ("ALCO") also reviews the Derivative Policy, and other policies regarding interest rate risk management, funding, loan prepayments and loan pricing, and recommends changes to the Board of Directors. The Board of Directors is responsible for governance and strategic direction through its annual review and approval of all policies.

Management is primarily responsible for overseeing operational risk, which is the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk is managed through use of appropriate policies, procedures and controls designed to create an effective internal control environment within the organization. ACFA's accountability framework also includes: preparation of a 5 year business plan and annual budget that is approved by the Board of Directors, quarterly financial forecasting and reporting to monitor financial results, codes of conduct and ethics for the Board of Directors and staff, and a whistleblower policy.

The Audit Committee fulfills its responsibilities by offering observation and objective advice on issues concerning ACFA's risk, controls, quality of information, quality of management oversight and management assertions. It monitors the adequacy and effectiveness of internal controls, including internal controls over financial reporting.

The ALCO is a management committee that oversees and manages ACFA's financial risks such as: market risk, including interest rate risk and currency risk; the risk of higher floating rate borrowing margins; the risk arising from mismatches in the floating rate reset dates of assets and liabilities; financing and refinancing risk; loan prepayment risk; and loan pricing risk. The ALCO manages financial risks to ensure ACFA's operating surplus does not decrease due to a significant, unexpected loss. It achieves this by setting risk benchmarks and monitoring performance against the benchmarks. It also assesses financial risks and formulates/evaluates acceptable risk mitigation strategies, within Board policy limits, to manage them.

Together, the aforementioned develop ACFA's strategic direction, oversee financial risk management and review and approve policies and procedures to maintain an acceptable level of financial risk.

(b) Asset and Liability Management

ACFA's assets are legislatively limited to an aggregate principal sum of all outstanding loans and securities not to exceed $18 billion. As debt and earnings are used to fund these loans, ACFA raises debt that can be obtained by the Province of Alberta in the capital markets given the amounts and terms requested by local authorities and the deals available. ACFA also manages its assets and liabilities by monitoring the duration and term to maturity of its existing loan and debt portfolios, obtaining estimated capital requirements for the local authorities to anticipate loan demand, utilizes the Province of Alberta's credit rating and operates under an approved financing plan that provides for a mixture of short-term, floating and fixed debt.

Notes To The Financial Statements

(b) Asset and Liability Management (Continued)

ACFA's viability is further managed by swapping its fixed term interest income on loans and fixed term interest expense on debt to floating rates so that movements in market interest rates are counter balanced by offsetting revenue and expense streams. For most loans made after January 1, 2004, ACFA uses the following to minimize the exposure related to fluctuations in interest rates: loan interest rate swaps to swap fixed rate loan interest to floating; floating rate notes which reprice at approximately the same time as the loans; and debt interest rate swaps to swap fixed rate debt interest to floating. Cross currency interest rate swaps are used to mitigate foreign exchange rate fluctuations as described in Note 11 (g).

ACFA's Canadian dollar bank accounts are exposed to interest rate risk. Canadian cash balances are held in CCITF.

(c) Credit Risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Credit risk from borrowers or local authorities is described in Note 4 and ACFA does not believe it has any significant credit exposure on loans. Credit exposure with derivative counterparties is described in Note 6.

(d) Interest Rate Risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. Interest rate risk refers to the potential impact of changes in interest rates on ACFA's earnings when maturities of its interest rate sensitive assets are not matched with the maturities of its interest rate sensitive liabilities. ACFA's interest rate sensitive assets and liabilities are those that: generate interest income such as loans and cash, incur interest expense such as debt, are interest rate swaps or are near-term cash inflows (outflows) such as accrued interest receivable (payable) associated with an underlying interest rate sensitive asset or liability. Non-interest rate sensitive assets and liabilities excluded in the tables below are: accounts receivable, prepaid expenses, tangible capital assets and accounts payable.

The contractual principal amounts of ACFA's interest rate sensitive assets and liabilities by maturity / next repricing date are summarized below.

Maturity / Repricing	2017	2018 to 2022	2023 and after	Total
Financial Assets				
Cash and restricted cash	$ 13,846	$	$	$ 13,846
Accrued interest receivable on loans	102,603			102,603
Accrued interest receivable on debt swaps (a)	16,189	-	-	16,189
Loans to local authorities	1,187,631	2,458,821	11,920,372	15,566,824
December 31, 2016	**$ 1,320,269**	**$2,458,821**	**$ 11,920,372**	**$ 15,699,462**
Loan effective rate, 2016 (b)	3.84%	3.84%	3.83%	3.83%

	2016	2017 to 2019	2020 and after	Total
December 31, 2015	**$ 1,265,109**	**$1,944,643**	**$ 12,183,175**	**$ 15,392,927**
Loan effective rate, 2015 (b)	3.94%	3.98%	3.97%	3.97%

a. Included in derivatives in favourable position on the statement of financial position.

b. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the loan to the net carrying amount.

Notes To The Financial Statements

Maturity / Repricing	2017	2018 to 2020	2021 and after	Total
Financial Liabilities				
Accrued interest payable on debt	$ 35,896	$ -	$ -	$ 35,896
Accrued interest payable on loan swaps (a)	55,092	-	-	55,092
Debt by type:				
Short-term (c)	2,296,701	-	-	2,296,701
Floating	1,480,000	-	-	1,480,000
Fixed (b)	2,755,620	2,197,367	6,726,694	11,679,681
December 31, 2016	**$ 6,623,309**	**$2,197,367**	**$ 6,726,694**	**$15,547,370**
Debt effective rate, 2016 (d)	3.48%	3.24%	4.05%	3.87%

	2016	2017 to 2019	2020 and after	Total
December 31, 2015	**$ 5,077,509**	**$3,655,400**	**$ 6,574,146**	**$15,307,055**
Debt effective rate, 2015 (d)	2.55%	3.28%	4.26%	4.02%

a. Included in derivatives in unfavourable position on the statement of financial position.

b. Foreign currency denominated debt is translated at the foreign exchange rate at the reporting date.

c. Comprised of contractual principal of $2,300,000 (2015 - $2,010,000) net of discounts on short-term notes of $3,299 (2015 - $2,692).

d. The effective rate is the rate that exactly discounts estimated future cash payments through the expected term of the debt to the net carrying amount.

Loan interest rate swaps and debt interest rate swaps with outstanding notional amounts of $14,983,161 and $10,650,492 respectively (2015 – $14,338,276 and $9,789,179 respectively) have not been included in the above table as notional amounts do not represent either financial assets or financial liabilities. Notional amounts are not recorded in the statement of financial position.

The interest rate sensitivity analysis below has been determined based on the exposure to interest rate fluctuations for significant interest rate sensitive assets and liabilities as at the reporting date. ACFA's significant interest rate sensitive assets and liabilities are those amounts in its loan and debt portfolios subsequent to January 1, 2004 that have been swapped, and can be represented by the outstanding notional amounts of the associated loan and debt swaps. The interest sensitivity arises due to the floating leg of the interest rate swap. Also included in the interest rate sensitivity analysis are floating rate debt and cash.

The potential impact of an immediate and sustained increase (decrease) of 25 basis points in interest rates throughout the year with all other variables held constant would impact net interest income by $7,166 increase and $7,166 decrease (2015 - $5,851 increase and $5,851 decrease).

Notes To The Financial Statements

(e) Liquidity Risk

Liquidity risk is the risk that ACFA will encounter difficulty in meeting obligations associated with its financial liabilities. ACFA's exposure to liquidity risk arises due to its cash flow requirements to fulfill debt payments and redemptions and loan demand of local authorities.

ACFA manages its liquidity risk by monitoring its cash flows on a daily basis. Surplus funds are invested in CCITF. To the extent there are differences in maturities between the collection of principal and interest from loans, and repayment of principal and interest on debt, the Province of Alberta on-lends debt to ACFA to ensure ACFA maintains an adequate cash balance.

Interest and principal repayments, as well as other payments for derivative financial instruments, are relevant for the presentation of the maturities of cash flows. The future cash flows below are not discounted. Foreign currencies are translated at the foreign exchange rate at the reporting date.

The maturities of ACFA's contractual cash flows for financial liabilities at December 31, 2016, with the assumption that all debt is redeemed at the maturity date, based on the earlier of repricing or principal repayments, are as follows:

Expected Future Cash out Flows	2017	2018 to 2020	2021 and after	Total
Accounts payable	$ 560	$ -	$ -	$ 560
Debt by type, contractual repayments of principal:				
Short-term (a)	2,296,701	-	-	2,296,701
Floating (b)	1,480,000	-	-	1,480,000
Fixed	2,755,620	2,197,367	6,726,694	11,679,681
Debt by type, contractual payments of interest:				
Short-term (a)	3,299	-	-	3,299
Floating (b)	3,592	-	-	3,592
Fixed	305,562	766,375	1,734,776	2,806,713
Loan swaps (pay fixed, receive floating) (b)	326,369	878,104	2,230,449	3,434,922
Commitments for leases and supplies and services	178	75	-	253
Commitments for loans	73,300	124,200	-	197,500
Total	**$ 7,245,181**	**$ 3,966,121**	**$10,619,919**	**$21,903,221**

a. Comprised of contractual principal of $2,300,000 net of discounts on short-term notes of $3,299.

b. Where the amount of interest is not fixed, as is the case for issued debt with a variable interest rate or for the floating leg of a loan swap, the amounts included in the above table are an estimate and have been determined by reference to the conditions existing at the reporting date.

Notes To The Financial Statements

In conjunction with the liquidity analysis provided above for the financial liabilities, management has determined the following liquidity analysis of financial assets is necessary to evaluate the nature and extent of the liquidity risk. Foreign currencies are translated at the foreign exchange rate at the reporting date.

Estimated Future Cash Inflows	2017	2018 to 2020	2021 and after	Total
Accounts receivable	$ 88	$	$	$ 88
Loans, contractual collection of principal (a)	1,209,053	2,516,810	12,038,462	15,764,325
Loans, contractual receipts of interest (a)	575,877	1,523,276	3,853,259	5,952,412
Debt swaps (receive fixed, pay floating) (a) (b)	352,191	393,947	995,082	1,741,220
Total	**$ 2,137,209**	**$ 4,434,033**	**$ 16,886,803**	**$ 23,458,045**

a. The amounts presented represent the contractual collection of principal and interest, and assumes no loan prepayments or credit default by local authorities and no credit default by counterparties. $197,500 of the contractual principal to be collected are loans that ACFA has contractually committed to fund after December 31, 2016.

b. Where the amount of interest is not fixed, as is the case for the floating leg of a debt swap, the amounts included in the above table are an estimate and have been determined by reference to the conditions existing at the reporting date.

(f) Refinancing Risk

Refinancing risk is the risk that the fair values or future cash flows of a financial instrument will fluctuate due to refinancing. Refinancing risk arises as local authorities may terminate loans with prepayment fee and refinance at current interest rates. ACFA manages this risk by monitoring the contractual maturities and durations of its loan and debt portfolios; by charging a prepayment fee to local authorities in accordance with the Stop-Loss Settlement Policy; and raising debt in capital markets, either domestic or foreign, at the best possible interest rate utilizing the Province of Alberta's credit rating.

(g) Foreign Currency Risk

Foreign currency risk is the risk the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

As at December 31, 2016, ACFA held foreign currency denominated debt outstanding of $1,200,000 USD (2015 - $600,000 USD), $125,000 AUD (2015 - nil), and 175,000 EUR (2015 - nil). Foreign currency denominated debt instruments require ACFA to make all periodic payments of interest expense, as well as the repayment of the aggregate principal balance due at maturity, in the respective foreign currency. As such, any changes in the foreign currency exchange rate from the date the foreign currency denominated debt instruments were issued to the date those debt instruments mature, expose ACFA to foreign currency risk.

To manage the exposure to foreign currency risk on the foreign currency denominated debt instruments, ACFA has obtained cross currency interest rate swaps with the same payment terms, payment dates, maturity dates and notional values as the foreign currency denominated debt instruments. In exchange for payments of interest and principal denominated in Canadian dollars, the cross currency interest rate swaps entitle ACFA to receive all the amounts necessary to satisfy the periodic payments of interest expense and the aggregate principal balance due at maturity on the foreign currency denominated debt instruments.

(g) Foreign Currency Risk (continued)

Because of this, any changes in the amount of cash required to satisfy the periodic settlement of interest expense throughout the term of the foreign currency debt instruments as well as the principal repayment required at maturity, will be offset by the cash provided from the respective cross currency interest rate swaps, regardless of the changes in the foreign exchange rate of the respective currency versus the Canadian dollar.

During the year, there no were no foreign denominated debts that have matured (2015 – $700,000 USD matured), therefore, there was no realized gains or losses on foreign exchange (2015 - loss of $179,680) and no realized gains or losses on derivatives (2015 - gain of $179,680). Realized gains and losses are recognized in the statement of operations and as reclassification adjustments in the statement of remeasurement gains and losses.

As at December 31, 2016, ACFA has no other financial instruments that are exposed to foreign currency risk.

NOTE 12 – CONTRACTUAL OBLIGATIONS AND COMMITMENTS

(a) Lease

ACFA has obligations under an operating lease expiring on October 31, 2018 for the rental of premises, and various other obligations for supplies and services under contracts entered into before December 31, 2016. The estimated aggregate amounts payable for the unexpired terms of these contractual obligations are as follows:

		Supplies and Services		Lease
2017	$	88	$	90
2018		–		75
Total	**$**	**88**	**$**	**165**

(b) Loans

In the normal course of business, ACFA enters into loan commitments to provide customers with sources of credit. Commitments to extend credit represent undertakings to make credit available in the form of loans for specific amounts, interest rates and terms to maturity, subject to ACFA's normal credit policies and appropriate collateral. Loan commitments include authorized loans not yet drawn down or awaiting further draw down.

The loan commitments indicate the maximum credit exposure to ACFA should the loans be fully drawn, represent future cash requirements and as at December 31, 2016 were:

		[illegible]
2017	$	73,300
2018		124,200
Total	**$**	**197,500**

Notes To The Financial Statements

NOTE 13 - BUDGET

The 2016 budget was approved by the Board of Directors on December 2, 2015. Budget amounts for 2016 were prepared on an amortized cost basis and remeasurement gains and losses on derivatives were not budgeted.

NOTE 14 - APPROVAL OF FINANCIAL STATEMENTS

The financial statements were recommended for approval by the Audit Committee on March 15, 2017 and subsequently approved by the Board of Directors on March 23, 2017.

Schedule 1 – Debt

As at December 31, 2016 *(in thousands of dollars)*

Maturity Date	Coupon Rate	Type	Notes	Principal Amount Outstanding
Public – Short-term:				
Jan-03-2017	0.5704%	Short term	(b)	$ 200,000
Jan-10-2017	0.5699%	Short term	(b)	200,000
Jan-17-2017	0.5751%	Short term	(b)	200,000
Jan-24-2017	0.5709%	Short-term	(b)	200,000
Jan-31-2017	0.5710%	Short-term	(b)	200,000
Feb-07-2017	0.5701%	Short term	(b)	200,000
Feb-14-2017	0.5704%	Short term	(b)	200,000
Feb-21-2017	0.5720%	Short term	(b)	200,000
Feb-28-2017	0.5771%	Short term	(b)	200,000
Mar-07-2017	0.5794%	Short-term	(b)	200,000
Mar-14-2017	0.5905%	Short term	(b)	200,000
Mar-28-2017	0.6264%	Short-term	(b)	100,000
				2,300,000
Private – Canada Pension Plan Investment Fund/ CPP Investment Board:				
Oct-01-2020	6.2800%	Fixed		222,367
Jun-01-2022	6.0600%	Fixed		100,000
Apr-05-2023	5.8900%	Fixed		50,000
Dec-01-2023	5.5000%	Fixed		150,000
Dec-03-2024	5.1800%	Fixed		78,000
Nov-03-2026	4.4900%	Fixed		200,000
Nov-03-2031	4.5000%	Fixed		125,396
Nov-02-2032	4.8300%	Fixed		190,383
				1,116,146

Schedule 1 – Debt

As at December 31, 2016 (in thousands of dollars)

Maturity Date	Interest rate	Type	Notes	[illegible] / Notional Outstanding
Public – Fixed and Floating:				
Jun-15-2017	4.6500%	Fixed		400,000
Jun-15-2017	4.6500%	Fixed		300,000
Jun-15-2017	1.7500%	Fixed	(b)	500,000
Jun-21-2017	1.0000%	Fixed	(b) (c)	805,620
Dec-15-2017	1.7000%	Fixed	(b)	750,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-01-2018	5.1500%	Fixed		50,000
Jun-15-2018	0.9850%	Floating	(a) (b)	500,000
Jun-15-2018	0.9850%	Floating	(a) (b)	500,000
Jun-15-2018	1.6000%	Fixed	(b)	500,000
Dec-01-2019	4.0000%	Fixed	(b)	275,000
Jun-01-2020	1.2500%	Fixed	(b)	600,000
Jun-01-2020	1.2500%	Fixed	(b)	500,000
Jun-17-2020	1.0750%	Floating	(a) (b)	165,000
Jun-17-2020	1.0750%	Floating	(a) (b)	315,000
Dec-15-2022	2.5500%	Fixed	(b)	720,000
Dec-15-2022	2.5500%	Fixed	(b)	600,000
Dec-01-2023	5.1000%	Fixed		20,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Dec-15-2025	4.4500%	Fixed		100,000
Jun-01-2026	2.2000%	Fixed	(b)	300,000
Aug-17-2026	2.0500%	Fixed	(b) (c)	805,620
Dec-14-2026	3.1000%	Fixed	(b) (d)	121,338
Sep-20-2029	2.9000%	Fixed	(b)	30,000
Sep-20-2029	2.9000%	Fixed	(b)	170,000
Sep-20-2029	2.9000%	Fixed	(b)	50,000
Sep-20-2029	2.9000%	Fixed	(b)	50,000
Sep-20-2029	2.9000%	Fixed	(b)	150,000
Jun-01-2031	3.5000%	Fixed	(b)	1,268,000
Dec-01-2033	3.9000%	Fixed	(b)	200,000

Schedule 1 – Debt

As at December 31, 2016 (in thousands of dollars)

Maturity Date	Interest Rate	Type	Notes	Contractual Principal Outstanding
Dec-01-2033	3.9000%	Fixed	(b)	110,000
Dec-01-2033	3.9000%	Fixed	(b)	215,000
Dec-01-2033	3.9000%	Fixed	(b)	225,000
Dec-01-2033	3.9000%	Fixed	(b)	110,000
Dec-01-2033	3.9000%	Fixed	(b)	140,000
Dec-01-2043	1.1500%	Fixed	(b) (e)	247,957
				12,043,535
Total contractual principal outstanding - 2016				15,459,681
Unamortized net (discounts)				(37,871)
Unamortized commission fees				(15,702)
Total amortized debt - 2016				**$ 15,406,108**
Total contractual principal outstanding - 2015				15,219,546
Unamortized net (discounts)				(35,947)
Unamortized commission fees				(18,454)
Total amortized debt - 2015				**$ 15,165,145**

NOTES

a. Floating rate notes that pay interest quarterly at the Canadian Deposit Offered Rate ("CDOR") plus predetermined spreads with principal paid on termination. The interest rates provided are based on the CDOR as of the reporting date plus the contractual predetermined spread.

b. Notes were on-lent from the Province of Alberta.

c. Note issued in US dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

d. Note issued in Australian dollars and translated to Canadian dollars using the foreign exchange rate at the reporting date.

e. Note issued in European Union Euros and translated to Canadian dollars using the foreign exchange rate at the reporting date.

ALBERTA INSURANCE COUNCIL

Financial Statements

December 31, 2016

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INDEPENDENT AUDITORS' REPORT

To the Members of Alberta Insurance Council

We have audited the accompanying financial statements of Alberta Insurance Council, which comprise the statements of financial position as at December 31, 2016, the statements of operations, changes in net assets and cash flows for the year then ended, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

KPMG LLP is a Canadian limited liability partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.
KPMG Canada provides services to KPMG LLP.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Insurance Council as at December 31, 2016, and its results of operations, its remeasurement gains and losses and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

KPMG LLP

Chartered Professional Accountants

April 13, 2017

Edmonton, Canada

ALBERTA INSURANCE COUNCIL

Statement of Financial Position

December 31, 2016, with comparative information for 2015

	2016	2015
Assets		
Current assets:		
Cash and cash equivalents (note 2)	$ 7,650,464	$ 6,598,351
Accounts receivable	12,139	42,498
Prepaid expenses	71,811	78,359
	7,734,414	6,719,208
Capital assets (note 3)	812,513	969,344
	$ 8,546,927	$ 7,688,552
Liabilities and Net Assets		
Current liabilities:		
Accounts payable and accrued liabilities	$ 397,724	$ 512,415
Deferred license, assessment, and continuing education fee revenue (note 4)	2,717,897	2,538,258
	3,115,621	3,050,673
Asset retirement obligation (note 5)	65,459	64,849
Deferred rent and tenant inducements (note 6)	375,111	433,646
	3,556,191	3,549,168
Net assets:		
Invested in capital assets (note 7)	517,556	620,362
Internally restricted (note 7)	750,000	750,000
Unrestricted	3,723,180	2,769,022
	4,990,736	4,139,384
	$ 8,546,927	$ 7,688,552

See accompanying notes to financial statements.

Original signed by Chair, Audit Committee

Original signed by Vice Chair, Alberta Insurance Council

ALBERTA INSURANCE COUNCIL

Statement of Operations

Year ended December 31, 2016, with comparative information for 2015

	2016 Budget	2016	2015
Revenue:			
License, assessment, examination and continuing education fees	$ 6,596,000	$ 6,177,787	$ 6,084,441
Interest and other	55,000	57,881	49,174
	6,651,000	6,235,668	6,133,615
Expenses:			
Manpower (note 8)	3,283,000	3,033,734	2,914,418
Occupancy and premises	861,000	745,333	770,752
Amortization of capital assets	360,000	336,257	356,805
Councils, boards and committees (note 9)	370,000	226,942	322,951
Software and computer	435,000	389,934	385,471
Office and administration	280,000	248,510	211,331
Professional fees	208,000	177,499	189,398
Communications	180,000	144,342	144,958
Travel	90,000	81,629	86,848
Loss on disposal of capital assets	-	136	1,811
	6,067,000	5,384,316	5,384,743
Excess of revenue over expenses	$ 584,000	$ 851,352	$ 748,872

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Changes in Net Assets

Year ended December 31, 2016, with comparative information for 2015

	Invested in capital assets	Internally restricted	Unrestricted	2016	2015
Net assets, beginning of year	$ 620,362	$ 750,000	$ 2,769,022	$ 4,139,384	$ 3,390,512
Excess of revenue over expenses	-	-	851,352	851,352	748,872
Amortization of capital assets	(336,257)	-	336,257	-	-
Amortization of deferred tenant inducements	54,635	-	(54,635)	-	-
Accretion of asset retirement obligation	(610)	-	610	-	-
Loss from disposal of capital assets	(136)	-	136	-	-
Purchase of capital assets	181,507	-	(181,507)	-	-
Proceeds on sale of capital assets	(1,945)	-	1,945	-	-
Net assets, end of year	$ 517,556	$ 750,000	$ 3,723,180	$ 4,990,736	$ 4,139,384

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Statement of Cash Flows

Year ended December 31, 2016, with comparative information for 2015

	2016	2015
Cash provided by (used in):		
Operating activities:		
Excess of revenue over expenses	$ 851,352	$ 748,872
Items not involving cash:		
Accretion of asset retirement obligation	610	610
Amortization of deferred tenant inducements	(54,635)	(54,635)
Recognition of deferred rent	(3,900)	19,185
Amortization of capital assets	336,257	356,805
Loss on disposal of capital assets	136	1,811
Decrease (increase) in accounts receivable	30,359	(19,016)
Decrease in prepaid expenses	6,548	7,166
(Decrease) increase in accounts payable and accrued liabilities	(114,691)	65,440
Increase in deferred license, assessment, and continuing education fee revenue	179,639	183,074
	1,231,675	1,309,312
Capital activities:		
Purchase of capital assets	(181,507)	(284,367)
Proceeds on sale of capital assets	1,945	172
	(179,562)	(284,195)
Increase in cash and cash equivalents	1,052,113	1,025,117
Cash and cash equivalents, beginning of year	6,598,351	5,573,234
Cash and cash equivalents, end of year	$ 7,650,464	$ 6,598,351

See accompanying notes to financial statements.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements

Year ended December 31, 2016

Authority and purpose:

The Alberta Insurance Council (the "Council") operates under the authority of the Insurance Act, Chapter 1-3, Revised Statutes of Alberta 2000, as amended. As a not-for-profit organization under the Income Tax Act, the Council is not subject to either federal or provincial income taxes.

The Council provides administration services to the Life Insurance, General Insurance and Insurance Adjusters Councils. These Councils are responsible for enforcing the provisions of the Insurance Act and Regulations for their segments of the insurance industry.

1. Significant accounting policies:

These financial statements are prepared in accordance with Canadian Public Sector Accounting Standards (PSAS), including the 4200 standards which apply to government not-for-profit organizations. The Council's significant accounting policies are as follows:

(a) Cash and cash equivalents:

Cash and cash equivalents include cash on hand and short-term deposits, which are highly liquid with original maturities of less than three months from the date of acquisition. These financial assets are convertible to cash at the request of the Council.

(b) Revenue recognition:

License and assessment fees are recognized as revenue on a straight-line basis over the term of the license and assessment. Examination fees are recognized at the time the related exam is held. Continuing Education (CE) course approval fees are recognized upon submission to the Accreditation Committee. CE provider fees are recognized on a calendar year basis. License and assessment fees received but not yet recognized as revenue are recorded as deferred licence and assessment fee revenue.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(c) Capital assets and amortization:

Capital assets are recorded at cost. Amortization is provided using the straight-line method over their estimated useful lives as follows:

Asset	Rate
Furniture and office equipment	3 - 10 years
Computer equipment	3 - 7 years
Computer software	3 - 7 years
Leasehold improvements	Term of lease
Telephone equipment	3 - 5 years

(d) Examination development costs:

Costs of development of examination questions are expensed as incurred.

(e) Tenant inducements, deferred rent and asset retirement obligation:

Tenant inducements associated with leased premises are amortized on a straight-line basis over the term of the related lease and recognized as a reduction of rent recorded in occupancy and premises expenses.

Rent expense is recognized on a straight-line basis over the lease term. Deferred rent comprises the aggregate difference in the rental expense incurred on a straight-line basis over the lease term and the actual rent charged.

The asset retirement obligation associated with leased premises is recorded at its discounted value, and is amortized over the term of the related lease. The associated accretion expense is included with occupancy and premises expenses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(f) Internally restricted net assets:

The Council has established internally restricted net assets in the amount of $750,000 to fund capital asset additions and maintenance costs over the medium term.

(g) Contributed services:

The work of the Council is dependent on the voluntary services of members. The value of donated services is not recognized in these financial statements.

(h) Financial instruments:

Financial instruments are recorded at fair value on initial recognition. Derivative instruments and equity instruments that are quoted in an active market are reported at fair value. All other financial instruments are subsequently recorded at cost or amortized cost unless management has elected to carry the instruments at fair value.

Unrealized changes in fair value are recognized in the statement of remeasurement gains and losses until they are realized, when they are transferred to the statement of operations. As the Council does not have any unrealized changes in fair value, a statement of remeasurement gains and losses has not been presented.

Transaction costs incurred on the acquisition of financial instruments measured subsequently at fair value are expensed as incurred. All other financial instruments are adjusted by transaction costs incurred on acquisition and financing costs, which are amortized using the straight-line method.

All financial assets are assessed for impairment on an annual basis. When a decline is determined to be other than temporary, the amount of the loss is reported in the statement of operations and any unrealized gain is adjusted through the statement of remeasurement gains and losses.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

1. Significant accounting policies (continued):

(h) Financial instruments (continued):

When the asset is sold, the unrealized gains and losses previously recognized in the statement of remeasurement gains and losses are reversed and recognized in the statement of operations.

(i) Use of estimates:

The preparation of the financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the year. Significant items subject to such estimates and assumptions include the carrying amounts of capital assets and asset retirement obligations. Actual results could differ from those estimates.

(j) Future accounting standard pronouncements:

The following summarizes upcoming changes to public sector accounting standards. In 2017, the Council will continue to assess the impact and prepare for the adoption of these standards.

Standard	Effective date (fiscal years beginning on or after)
PS2200 - Related party disclosures	April 1, 2017
PS3420 - Inter-entity transactions	April 1, 2017
PS3210 - Assets	April 1, 2017
PS3320 - Contingent assets	April 1, 2017
PS3380 - Contractual rights	April 1, 2017
PS3430 - Restructuring transactions	April 1, 2018

2. Cash and cash equivalents:

Included in cash and cash equivalents is an amount of $6,870,586 (2015 - $5,906,541) invested in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by the Government of Alberta with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The average interest rate during the year ended December 31, 2016 was 0.85% (2015 - 0.92%).

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

3. Capital assets:

	Cost	Accumulated amortization	2016 Net book value	2015 Net book value
Furniture and office equipment	$ 435,503	$ 286,632	$ 148,871	$ 140,192
Computer equipment	699,093	535,141	163,952	222,424
Computer software	1,614,363	1,436,850	177,513	215,815
Leasehold improvements	1,067,081	757,719	309,362	376,097
Telephone equipment	20,456	7,641	12,815	14,816
	$ 3,836,496	$ 3,023,983	$ 812,513	$ 969,344

4. Deferred license, assessment, and continuing education fee revenue:

	2016	2015
License[(a)]	$ 2,624,750	$ 2,433,546
Assessment	82,875	87,375
Continuing education	10,272	17,337
	$ 2,717,897	$ 2,538,258

(a) License terms commence July 1 and remain in effect until June 30 of the following year.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

5. Asset retirement obligation:

The Council is required by the terms of its leases for premises in Edmonton and Calgary to remove improvements made to these premises upon termination of the leases. It is the opinion of management that it is highly probable that the Council will be required to remove improvements made to its Edmonton premises, and has recorded an asset retirement obligation and leasehold improvements for the discounted value of the estimated removal costs, using the discount rate of 0.94%. Amortization of $6,029 is included in amortization of capital assets, and the accretion expense in the amount of $610 has been included with occupancy costs. The undiscounted asset retirement obligation is $68,000 as at December 31, 2016.

Management has estimated the cost to remove improvements to its Calgary premises would not be material and believes the probability of incurring these costs is low. Accordingly, management has not recorded either an asset retirement cost or asset retirement obligation for the Calgary location.

The estimated carrying value of the Edmonton leasehold improvement is $221,000 at December 31, 2016 (2015 - $305,492).

6. Deferred rent and tenant inducements:

		2016		2015
Deferred tenant inducements	$	229,498	$	284,133
Deferred rent		145,613		149,513
	$	375,111	$	433,646

7. Invested in capital assets and internally restricted net assets:

Invested in capital assets consists of the following:

		2016		2015
Capital assets	$	812,513	$	969,344
Asset retirement obligation		(65,459)		(64,849)
Deferred tenant inducements		(229,498)		(284,133)
	$	517,556	$	620,362

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

7. Invested in capital assets and internally restricted net assets (continued):

Internally restricted net assets consists of the following:

Reserve for capital expenditures and maintenance	$	750,000	$	750,000

8. Manpower:

	Full Time Employees		Salary[a]		Benefits and other[b]		2016 Total		2015 Total
Chief Executive Officer	1	$	250,000	$	32,259	$	282,259	$	296,768
Chief Operating Officer	1		199,750		35,792		235,542		237,418
Other staff	20		2,140,722		375,211		2,515,933		2,380,232
	22	$	2,590,472	$	443,262	$	3,033,734	$	2,914,418

(a) Salary includes regular base pay, bonuses and overtime.

(b) Benefits and other includes employer's share of all employee benefits and contributions or payments made on behalf of employees including group RRSP, health care, group life insurance, long and short-term disability plans and vacation pay.

Employees of the Council are specifically excluded from enrolment in the Province of Alberta's Public Service Plan and the Province of Alberta's Management Employees Pension Plan. The Council employees are also excluded from any of the Province of Alberta's employee benefits plans.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

9. Councils, boards and committees:

(a) The following amounts are included in Councils, boards and committees expenses:

		2016		2015
Councils and Council Committees	$	167,458	$	178,490
Appeal Boards		10,185		70,921
Accreditation Committee		49,299		73,540
	$	226,942	$	322,951

The Minister of Finance, responsible for the Insurance Act, has appointed the Accreditation Committee, provided for in Section 29 of the Insurance Agents and Adjusters Regulation. The Council funds the operations of and provides administrative services to the Accreditation Committee.

(b) Per diem payments of Council Members:

The following amounts are included in Councils, Boards and Committee expenses:

	Number of members	2016(iii) $	Number of members	2015(iii) $
Councils(i)				
Alberta Insurance Council - Chair(ii)	1	14,850	1	17,450
Other - Chairs	12	67,965	14	69,672
Members	32	121,958	43	131,197
Total		204,773		218,319

(i) This includes the Alberta Insurance Council, the Life Insurance Council, the General Insurance Council, the Insurance Adjusters Council, the Audit Committee, the Appeal Boards and the Accreditation Committee.

(ii) The position of Chair has been vacant since October 2015, at which time, the Vice Chair assumed the duties of Chair. Amounts for 2016 include per diem payments for attendance at Alberta Insurance Council and the Council chair annual stipend. Amounts for 2015 include per diem payments for attendance at Alberta Insurance Council, Audit Committee, and the Council chair annual stipend.

(iii) All per diem payments made to members of Councils, Committees and Boards are paid by the Council out of fees received from insurance licenses and continuing education course accreditation fees. This includes public members appointed by the Lieutenant Governor in Council, as well as Accreditation Committee members appointed by the Minister of Finance pursuant to the Government Organization Act.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

10. Commitments:

The Council is committed under existing lease agreements and contracted services for operating lease payments. The annual lease payments over the next five years are as follows:

2017	$ 423,626
2018	432,152
2019	440,678
2020	449,204
2021	253,914

The Council is also responsible for its share of operating costs related to the office premises leases. These costs are not fixed within the lease and are subject to change on a year to year basis.

The Council is also committed to the installation of security equipment in the amount of $61,074 to be incurred in early 2017.

11. Financial risks and concentration of credit risk:

(a) Credit risk:

Credit risk refers to the risk that a counterparty may default on its contractual obligations resulting in a financial loss. The Council is exposed to credit risk with respect to its accounts receivable.

The Council assesses, on a continuous basis, accounts receivable and provides for any amounts that are not collectible in the allowance for doubtful accounts. The maximum exposure to credit risk of the Council at December 31, 2016 is the carrying value of these assets.

There have been no significant changes to the credit risk exposure from 2015.

ALBERTA INSURANCE COUNCIL

Notes to Financial Statements (continued)

Year ended December 31, 2016

11. Financial risks and concentration of credit risk (continued):

(b) Liquidity risk:

Liquidity risk is the risk that the Council will be unable to fulfill its obligations on a timely basis or at a reasonable cost. The Council manages its liquidity risk by monitoring its operating requirements. The Council prepares budget and cash forecasts to ensure it has sufficient funds to fulfill its obligations.

There have been no significant changes to the liquidity risk exposure from 2015.

(c) Interest rate risk:

Financial assets and financial liabilities with variable interest rates expose the Council to cash flow interest rate risk. The Council is exposed to this risk through its interest bearing deposit in the CCITF.

There have been no significant changes to the interest rate risk exposure from 2015.

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ALBERTA INVESTMENT MANAGEMENT CORPORATION

Financial Statements

For the year ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the Shareholder of Alberta Investment Management Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Investment Management Corporation, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Investment Management Corporation as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

May 25, 2017

Edmonton, Alberta

Statement of Financial Position

As at March 31, *($ thousands)*	**2017**	**2016**
Financial assets		
Cash and cash equivalents (Note 5)	$ 69,175	$ 61,057
Accounts receivable	12,157	11,773
Other assets	2,416	2,416
	83,748	75,246
Liabilities		
Accounts payable and accrued liabilities	4,738	4,216
Accrued employment liabilities (Note 6)	83,333	77,577
Advance from the Province of Alberta (Note 7)	63,349	66,349
Pension liabilities (Note 8)	3,494	3,248
Deferred lease inducement (Note 15)	1,922	2,671
	156,836	154,061
Net debt	(73,088)	(78,815)
Non-financial assets		
Tangible capital assets (Note 9)	70,713	77,253
Prepaid expenses	6,022	5,209
	76,735	82,462
Net assets (Note 10)	$ 3,647	$ 3,647

Contractual obligations (Note 15)

The accompanying notes are part of these financial statements.

Approved by the Board:

Original signed by	Original signed by
Mac H. Van Wielingen Board Chair	Richard Bird Audit Committee Chair

Statement of Operations

For the year ended March 31, (*$ thousands*)	**2017** **Budget** **(Note 16)**	**2017**	**2016**
Revenue			
Cost recoveries	$ 469,845	$ 455,236	$ 453,840
Interest income	-	327	226
Total revenue	469,845	455,563	454,066
Expenses			
Third-party investment management fees (Note 11)	184,419	155,325	155,958
Third-party asset administration, legal, and other (Note 11)	74,369	78,111	89,975
Third-party performance fees (Note 11)	79,141	76,845	57,723
Salaries, wages and benefits	81,030	95,361	102,005
Data, subscriptions and maintenance services	17,899	17,513	15,792
Amortization of tangible capital assets (Note 9)	12,666	13,387	12,106
Administrative expenses	6,650	6,918	7,250
Rent	6,613	6,299	5,622
Contract and professional services	6,605	5,282	7,121
Interest	453	522	514
Total expenses	469,845	455,563	454,066
Annual surplus	$ -	$ -	$ -

The accompanying notes are part of these financial statements.

Statement of Change in Net Debt

For the year ended March 31, (*$ thousands*)	**2017** **Budget** **(Note 16)**	**2017**	**2016**
Annual surplus	$ -	$ -	$ -
Acquisition of tangible capital assets	(8,855)	(6,850)	(9,722)
Amortization of tangible capital assets (Note 9)	12,666	13,387	12,106
Loss on disposal of tangible capital assets		3	-
Change in prepaid expenses		(813)	(436)
Decrease in net debt in the year	3,811	5,727	1,948
Net debt at beginning of year	(78,815)	(78,815)	(80,763)
Net debt at end of year	$ (75,004)	$ (73,088)	$ (78,815)

The accompanying notes are part of these financial statements.

Statement of Cash Flows

For the year ended March 31, (*$ thousands*)	2017	2016
Operating transactions		
Annual surplus	$ -	$ -
Non-cash items:		
Amortization of tangible capital assets	13,387	12,106
Amortization of deferred lease inducement	(749)	(749)
Loss on disposal of tangible capital assets	3	-
Change in pension liabilities	246	210
	12,887	11,567
(Increase) decrease in accounts receivable	(384)	2,144
(Increase) in prepaid expenses	(813)	(436)
Increase (decrease) in accounts payable and accrued liabilities	522	(789)
Increase in accrued employment liabilities	5,756	21,500
Cash provided by operating transactions	17,968	33,986
Capital transactions		
Acquisition of tangible capital assets	(6,850)	(9,722)
Cash applied to capital transactions	(6,850)	(9,722)
Financing transactions		
Proceeds from advance from the Province of Alberta	-	8,000
Payment of advance from the Province of Alberta	(3,000)	(500)
Cash (applied to) provided by financing transactions	(3,000)	7,500
Increase in cash and cash equivalents	8,118	31,764
Cash and cash equivalents at beginning of year	61,057	29,293
Cash and cash equivalents at end of year	$ 69,175	$ 61,057
Supplementary information		
Cash used for interest	$ 359	$ 369

The accompanying notes are part of these financial statements.

Financial Information

Notes to the Financial Statements

For the year ended March 31, 2017 ($ thousands)

NOTE 1 AUTHORITY

Alberta Investment Management Corporation ("the Corporation") is an agent of the Crown in right of Alberta and operates under the authority of the *Alberta Investment Management Corporations Act*, Chapter A-26.5. Under the Act, the Corporation is established as a Crown Corporation governed by a Board of Directors appointed by the Lieutenant Governor in Council. The issued share of the Corporation is owned by the Crown, and accordingly the Corporation is exempt from federal and provincial income taxes under the *Income Tax Act*.

NOTE 2 NATURE OF OPERATIONS

The purpose of the Corporation is to provide investment management services in accordance with the *Alberta Investment Management Corporations Act* primarily to the Province of Alberta and certain public sector pension plans. The Corporation forms part of the Ministry of Treasury Board and Finance for which the President of Treasury Board and Minister of Finance is responsible. The Corporation was formed January 1, 2008.

The Corporation has assets under administration of approximately $98.4 billion (2016: $89.0 billion) at March 31, 2017, see Note 12. These assets are invested in segregated investments owned by the client or aggregated in one or more pooled investment portfolios managed by the Corporation. Some of these assets are managed by third-party investment managers selected and monitored by the Corporation in order to achieve greater diversification, as well as to access external expertise and specialized knowledge. The segregated assets and the assets within the pooled investment portfolios are not consolidated in the financial statements of the Corporation. The Corporation makes investments on behalf of its clients and may also establish companies in which the Province of Alberta is the registered owner of the shares for the purpose of managing specific investments. As the Corporation has no beneficial interest in these entities, they are not consolidated in the Corporation's financial statements.

The Corporation recovers all operating expenses and capital expenditures on a cost recovery basis. The Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, although they have not done so in the past.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards ("PSAS") and include the following significant accounting policies:

a) Measurement Uncertainty

Measurement uncertainty exists when there is a variance between the recognized or disclosed amount and another reasonably possible amount. Third-party investment management fees which are recorded as $155,325 (2016: $155,958), third-party performance fees which are recorded as $76,845 (2016: $57,723), and pension liabilities which are recorded as $3,494 (2016: $3,248) in these financial statements, are subject to measurement uncertainty. Third-party investment costs include estimates of management and performance fees that are based upon specified rates and commitment levels in the investment management agreements. The pension liabilities are based on key assumptions that could impact the reported liability. Refer to Note 8 for a description of the key assumptions and how a change in the assumptions can impact the reported pension liability.

Estimates and assumptions are based on the best information available at the time of preparation of the financial statements and are reviewed annually to reflect new information as it becomes available. Actual results may differ from these estimates.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

b) Revenue Recognition

All revenues are reported on the accrual basis of accounting.

Cost recovery revenue is recognized on the recovery of direct costs related to management of government funds, pension plans and other investments, and on the recovery of indirect costs representing each government fund, pension plan and pooled fund's respective share of the Corporation's operating costs. The indirect charges are primarily allocated based on assets under management and head count.

Cost recovery revenue is accrued and billed on a monthly basis as the related costs are incurred and investment management services are provided.

Under the *Alberta Investment Management Corporations Act*, the Corporation may establish and maintain one or more Reserve Funds with the ability to recover charges in excess of direct costs.

c) Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Interest expense is comprised primarily of debt servicing costs on the Advance from the Province of Alberta.

d) Financial Assets

Financial assets are the Corporation's financial claims on external organizations and individuals.

Cash and Cash Equivalents
Cash and cash equivalents are recognized at cost, which is equivalent to their fair value, and include short-term and mid-term liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. The Corporation has access to these investments with no restrictions.

Accounts Receivable
Accounts receivable are recognized at the lower of cost or net recoverable value. Provision for doubtful accounts are made to reflect accounts receivable at the lower of cost and net recoverable value, when collectability and risk of loss exists. Changes in doubtful accounts are recognized in administrative expenses in the Statement of Operations (2017 and 2016: $nil).

Other Assets
Other assets are valued at the lower of cost and net recoverable value.

e) Liabilities

Liabilities are recorded at cost to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:
- all financial claims payable by the Corporation at the year-end;
- accrued employee vacations entitlements and other benefits;
- deferred lease inducement; and
- contingent liabilities where future liabilities are likely.

Advance from the Province of Alberta and pension liabilities are recognized at amortized cost.

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

f) Non-Financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

Tangible Capital Assets

Tangible capital assets are recognized at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Cost includes overhead directly attributable to construction and development, as well as interest costs that are directly attributable to the acquisition or construction of the asset. Computer systems hardware and software development costs, including labour and materials, and costs for design, development, testing and implementation, are capitalized when the related business systems are expected to be of continuing benefit to the Corporation.

Work in progress, which includes development of information systems is not amortized until after a project is complete (or substantially complete) and the asset is put into service.

The cost, less residual value, of the tangible capital assets, is amortized on a straight-line basis over their estimated useful lives as follows:

Computer systems hardware and software	5-10 years
Furniture and equipment	10 years
Leasehold improvements	Lesser of the useful life of the asset and the term of the lease

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value. The write-downs are accounted for as expenses in the Statement of Operations (2017 and 2016: $nil).

Prepaid Expense

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

g) Valuation of Financial Assets and Liabilities

All financial assets and financial liabilities are measured at cost or amortized cost. The Corporation does not own any financial instruments designated in the fair value category and as such a Statement of Remeasurement Gains and Losses has not been included in the financial statements.

All financial assets are tested annually for impairment. When financial assets are impaired, impairment losses are reported in the Statement of Operations.

For financial instruments measured using amortized cost, the effective interest rate method is used to determine interest revenue or expense.

The Corporation does not own any derivative financial instruments.

h) Employment Benefits

The Corporation participates in multi-employer defined benefit plans that meet the accounting requirements for treatment as defined contribution plans. The Corporation also participates in defined contribution pension plans. Employer contributions are expensed as incurred.

On January 1, 2010, the Corporation established a new Supplementary Retirement Plan ("SRP") for those individuals required to withdraw from the existing SRP for Public Service Managers. This pension plan is accounted for using the projected-benefits method pro-rated on service to account for the cost of the defined benefit pension plan. Pension costs are based on management's best estimate of expected plan investment performance, discount rate, salary escalation, and retirement age of employees. The discount rate used to determine the accrued benefit obligation is based on rates of return of assets currently held by the Plan. Plan assets are valued at fair value for the purpose of calculating the expected return on plan assets. Past service costs from plan amendments are amortized on a straight-line basis over the average remaining service life of

NOTE 3 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES (continued)

h) Employment Benefits (continued)

employees active at the date of amendments. Net actuarial gains or losses and transitional obligations are amortized on a straight-line basis over the average remaining service life of active employees. Valuation allowances are calculated such that accrued benefit assets are limited to amounts that can be realized in the future by applying any plan surplus against future contributions.

The Corporation provides retention incentives to certain employees through a Long-Term Incentive Plan ("LTIP") and a Restricted Fund Unit Plan ("RFU"). The potential end value of these grants, if and when vested, fluctuate over the vesting period based on achievement of certain performance factors, and are expensed as salaries, wages and benefits over the vesting period of the awards. The liability for the grants are remeasured at each reporting period based on changes in the intrinsic values of the grants, such that the cumulative amount of the liability will equal the potential payout at that date. Any gains or losses on remeasurement are reported in the Statement of Operations. For any forfeiture of the grants, the accrued compensation cost will be adjusted by decreasing salaries, wages and benefits expense in the period of forfeiture.

i) Foreign Currency

Assets and liabilities denominated in foreign currency are translated at the year-end rate of exchange. Exchange differences on transactions are included in the determination of net operating results. Foreign currency transactions are translated into their Canadian dollar equivalents using the Bank of Canada noon rate prevailing at the transaction dates.

NOTE 4 FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board issued the following accounting standards:

PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)
PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)
PS 3210 provides guidance for applying the definition of assets set out in Financial Statement Concepts, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currenty assessing the impact of these standards on the financial statements.

PS 3430 Restructuring Transactions (effective April 1, 2018)
This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currenty assessing the impact of these standards on the financial statements.

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist of:

as at March 31, ($ thousands)	2017	2016
Deposit in Consolidated Cash Investment Trust Fund	$ 68,440	$ 60,903
U.S. bank account	67	65
Great British Pounds bank account	668	89
	$ 69,175	$ 61,057

The Consolidated Cash Investment Trust Fund is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality short-term and mid-term fixed income securities with a maximum term-to-maturity of three years. As at March 31, 2017, securities held by the Fund have a time-weighted return of 0.86% per annum (2016: 0.83% per annum).

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES

as at March 31, ($ thousands)	2017	2016
Annual incentive plan (a)	$ 28,142	$ 28,231
Long-term incentive plan (b)	52,247	46,887
Restricted fund unit incentive plan (c)	1,406	477
Accrued vacation, salaries and benefits	1,538	1,982
	$ 83,333	$ 77,577

a) Annual Incentive Plan

Variable pay per the Corporation's Annual Incentive Plan ("AIP") is accrued based on goal attainment for the calendar year and paid in the subsequent year. Payments are tied to asset class and total fund value-added and include a component for achievement of annual individual objectives. The Chief Executive Officer may also make limited discretionary awards.

Total expense related to the AIP for the year ended March 31, 2017 was $23,652 (2016: $23,616) which was recorded in salaries, wages and benefits.

b) Long-Term Incentive Plan

The Corporation provides retention incentives to certain employees through an LTIP and an RFU plan. The LTIP program provides the opportunity for a performance payment for generating superior average net incremental return from active management ("value-added") over a four-year period. Senior management and other key professionals of the Corporation receive LTIP grants effective January 1 of each year that vary in size with their level of responsibility and quality of past performance and vest at the end of the fourth calendar period subsequent to the grant date. In the majority of situations, employees must be actively working for the Corporation on the date of payment. LTIP grants have an initial cash value of zero. When they vest after four years, and providing all vesting and plan conditions have been met by the employee, they will pay between zero and three times the size of the grant based on cumulative performance under the four-year vesting period. The maximum amount could be paid if the average four-year value-added exceeds the average "stretch target" annually set by the Board. The stretch target for the 2017 calendar year is $775,000.

Information about the target, stretch target and actual results achieved for the last five calendar years is as follows:

	Target	Stretch Target	Value Add for Compensation Purposes[1]
2012	200,000	600,000	1,245,000
2013	266,667	800,000	427,000
2014	269,000	807,000	(82,000)
2015	302,000	906,000	1,514,800
2016	251,500	754,500	225,500
Total	$ 1,289,167	$ 3,867,500	$ 3,330,300

[1] Historic value-added was adjusted to reflect the impact of changes in the valuation methodology in 2014 for certain insurance-related investments. Value-added for periods prior to 2014 declined as a result. This adjustment was for compensation purposes only.

If the average four-year value-added exceeds the average stretch target annually set by the Board, employees have the potential to receive a Special LTIP Grant at the vesting date. This Special LTIP Grant, which cannot exceed the original grant, has a new four-year vesting period and is subject to the same parameters and plan conditions as regular LTIP grants. Strong performance in certain asset classes since the first grants were awarded have resulted in the potential for Special LTIP Grants. A Special LTIP Grant was awarded in the current year for $1,546 (2016: $2,872).

The accrued LTIP liability as at March 31, 2017 of $52,247 (2016: $46,887) reflects the current value of all LTIP, based on actual results to that date from the date they were awarded.

NOTE 6 ACCRUED EMPLOYMENT LIABILITIES (continued)

b) Long-Term Incentive Plan (continued)

Information about total LTIP grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2017 Notional Value	2017	2016 Notional Value	2016
LTIP grants outstanding, beginning of year	43,128	$ 46,887	38,454	$ 30,493
Granted	11,661	187	12,545	144
LTIP accrual	-	21,828	-	31,461
Forfeited	(1,973)	(2,751)	(3,733)	(2,960)
Paid	(4,738)	(13,904)	(4,138)	(12,251)
LTIP grants outstanding, end of year	48,078	$ 52,247	43,128	$ 46,887

The maximum potential obligation related to the LTIP as at March 31, 2017 was $144,234 (2016: $129,384). Total expense related to the LTIP for the year ended March 31, 2017 was $19,264 (2016: $28,494) which was recorded in salaries, wages and benefits.

c) Restricted Fund Unit Incentive Plan

The RFU program is a supplementary compensation plan based on a notional investment in the total assets under administration, where the value fluctuates based on the total rate of return. Unlike the LTIP grants, rates of return relative to benchmark do not impact the value of the RFUs. RFUs have time horizons of one to three years for vesting provisions. Employees must be on staff as of the payment date in order to be eligible to receive any vested payments.

The accrued RFU liability as at March 31, 2017 of $1,406 (2016: $477) reflects the current value of all RFUs, based on actual results to that date from the date they were awarded.

Information about total RFU grants awarded and outstanding is as follows:

for the year ended March 31, (thousands)	2017 Notional Value	2017	2016 Notional Value	2016
RFU grants outstanding, beginning of year	1,847	$ 477	725	$ 533
Granted	56	35	1,472	199
Accrual	-	1,031	-	221
Paid	(125)	(136)	(350)	(476)
RFU grants outstanding, end of year	1,778	$ 1,407	1,847	$ 477

Total expense related to the RFU plan for the year ended March 31, 2017 was $1,066 (2016: $422) which was recorded in salaries, wages and benefits.

NOTE 7 ADVANCE FROM THE PROVINCE OF ALBERTA

Pursuant to Order in Council 219/2012 and in accordance with a loan advance agreement, the Corporation has not received advances from the Province of Alberta for the year ended March 31, 2017 (2016: $8,000). As at March 31, 2017, the outstanding advances from the Province totaled $63,349 (2016: $66,349).

The advance is a revolving demand credit facility up to a maximum of $70,000. The advance is repayable within six months of demand by the Province and is interest bearing at a rate equal to the Province's one-month borrowing rate of 0.56% (2016: 0.55%). Interest expense on advance is $359 (2016: $369) and is included on the Statement of Operations. At March 31, 2017, the Corporation was in compliance with the terms of its revolving demand facility.

NOTE 8 PENSION LIABILITIES

Information about the Corporation's SRP is as follows:

for the year ended March 31, ($ thousands)	2017	2016
Accrued retirement obligation		
Beginning of year	$ 4,529	$ 4,368
Current service cost	580	466
Interest cost	135	180
Benefits paid	(28)	(62)
Actuarial loss (gain)	730	(423)
End of year	5,946	4,529
Plan assets		
Fair value, beginning of year	1,794	1,660
Actual return (loss) on plan assets	85	(150)
Employer contributions	189	173
Employee contributions	189	173
Benefits paid	(28)	(62)
End of year	2,229	1,794
Funded status - plan deficit	(3,717)	(2,735)
Unamortized net actuarial loss (gain)	223	(513)
Reported liability	$ (3,494)	$ (3,248)
Current service cost	580	466
Interest cost	135	180
Expected return on plan assets	(52)	(68)
Net actuarial gain amortization	(39)	(22)
Less: employee contributions	(189)	(173)
Total SRP expense	$ 435	$ 383

The measurement date for the plan assets and the accrued retirement obligation for the Corporation's defined benefit pension plan is March 31. Actuarial valuations are performed at least every three years to determine the actuarial present value of the accrued retirement obligation. An actuarial valuation for funding purposes was prepared as of December 31, 2015. An extrapolation of the actuarial valuation dated December 31, 2015 was performed to March 31, 2017.

Approximate asset allocations, by asset category, of the Corporation's defined benefit pension plan assets were as follows:

as at March 31,	2017	2016
Equity securities	55%	55%
Debt securities	44%	44%
Other	1%	1%

The following table presents key assumptions applicable to the SRP:

NOTE 8 PENSION LIABILITIES (continued)

as at March 31,	2017	2016
Annual discount rate	2.7%	2.7%
Annual salary increase - base	2.0%	3.0%
Expected long-term return on plan assets	5.3%	5.3%
Inflation rate	2.0%	2.0%

The reported liability of the SRP is significantly impacted by these assumptions. A 1% increase or decrease in the discount rate would decrease or increase the reported liability by $1,519 as at March 31, 2017 (2016: $1,339). A 1% increase or decrease in the rate of salary increases would increase or decrease the reported liability by $1,399 as at March 31, 2017 (2016: $1,907). A 1% increase or decrease in the inflation rate would increase or decrease the reported liability by $585 as at March 31, 2017 (2016: $499).

Pension and Disability Plans

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in a defined contribution pension plan and a defined contribution supplementary retirement plan, established for employees hired after the formation of the Corporation on January 1, 2008.

The Corporation's expense for the pension and disability plans was equivalent to the annual contributions of $4,597 (2016: $3,816) for the year ended March 31, 2017 which was recorded in salaries, wages and benefits.

The Corporation accounts for multi-employer pension plans on a defined contribution basis. The Corporation is not responsible for future funding of the plan deficit other than through contribution increases.

The Corporation does not have sufficient plan information on the MEPP/PSPP to follow the standards for defined benefit accounting, and therefore follows the standards for defined contribution accounting. Accordingly, pension expense recognized for the MEPP/PSPP is comprised of employer contributions to the plan that are required for its employees during the year, which are calculated based on actuarially pre-determined amounts that are expected to provide the plan's future benefits.

At December 31, 2016, the Management Employees Pension Plan reported a surplus of $402,033 (2015: surplus of $299,051) and the Public Service Pension Plan reported a surplus of $302,975 (2015: deficiency of $133,188).

NOTE 9 TANGIBLE CAPITAL ASSETS

for the year ended March 31 ($ thousands)

	Computer systems hardware and software	Leasehold improvements	Furniture and equipment	2017	2016
Cost					
Opening balance	$ 97,388	$ 13,299	$ 4,625	$ 115,312	$ 110,045
Additions	6,657	168	25	6,850	9,722
Disposals	(86)	-	-	(86)	(4,455)
Closing balance	103,959	13,467	4,650	122,076	115,312
Accumulated amortization					
Opening balance	27,608	7,814	2,637	38,059	30,408
Amortization expense	11,443	1,439	505	13,387	12,106
Effect of disposals	(83)	-	-	(83)	(4,455)
Closing balance	38,968	9,253	3,142	51,363	38,059
Net book value at March 31	$ 64,991	$ 4,214	$ 1,508	$ 70,713	$ 77,253

NOTE 9 TANGIBLE CAPITAL ASSETS (continued)

Cost includes work-in-progress at March 31, 2017 totaling $313 (2016 - $nil) comprised of computer systems hardware and software.

NOTE 10 NET ASSETS

Net assets is made up as follows:

as at March 31, ($ thousands)	2017	2016
Contributed surplus (a)	$ 3,647	$ 3,647
Share capital (b)	-	-
Accumulated surplus	-	-
	$ 3,647	$ 3,647

a) Contributed Surplus

Contributed surplus of $3,647 (2016: $3,647) represents equity received by the Department of Treasury Board and Finance in exchange for the transfer of the net book value of capital assets to the Corporation on January 1, 2008.

b) Share Capital

as at March 31, ($ thousands)	2017	2016
Issued and Authorized		
Province of Alberta - one share	$ -	$ -

NOTE 11 THIRD-PARTY INVESTMENT COSTS

Third-party investment costs include third-party investment management and performance-based fees, as well as asset administration, legal and other expenses incurred on behalf of the Corporation's clients.

Third-party investment management fees are based on a percentage of net assets under management at fair value and committed amounts in the case of private equity and private income pools. Fees charged by third-party managers include regular management fees as well as performance/incentive-based fees. These fees include significant estimates and measurement uncertainty. Actual results could differ from these estimates.

Third-party asset administration, legal and other expenses are incurred directly by the Corporation's investment portfolios and include fees for the following services: asset custody and administration, audit, compliance and valuation, and investment acquisition, disposition and structuring.

NOTE 12 ASSETS UNDER ADMINISTRATION

The Corporation provides investment management services on behalf of certain Province of Alberta endowment funds, other government funds and certain public sector pension plans.

At March 31, 2017 assets under administration totalled approximately $98.4 billion (2016: $89.0 billion), at market value. These assets were administered on behalf of the following clients of the Corporation:

NOTE 12 ASSETS UNDER ADMINISTRATION (continued)

as at March 31, ($ thousands)	2017	2016
Pension plans	$ 63,012,934	$ 55,538,671
Ministry of Treasury Board and Finance		
General revenue and entity investment funds [1]	6,782,646	6,003,618
Endowment funds (including the Alberta Heritage Savings Trust Fund)	22,562,476	21,910,581
Insurance-related funds	2,916,374	2,810,050
Other government Ministry investment funds	3,137,906	2,709,970
	$ 98,412,336	$ 88,972,890

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Treasury Board and Finance.

The Corporation manages the majority of these investments through pooled investment funds. However, some investments are managed by third party investment managers selected and monitored by the Corporation in order to achieve greater diversification, access to external expertise and specialized knowledge. Investments are made in accordance with the investment policies established and approved by the clients.

Investments administered by the Corporation were held in the following asset classes:

as at March 31, ($ thousands)	2017	2016
Fixed income		
Fixed income [1]	$ 28,718,617	$ 25,587,076
Private mortgages	3,077,602	3,175,844
Private debt & loan	798,096	918,970
Inflation sensitive		
Real estate	12,589,786	12,554,248
Infrastructure and timber	6,793,237	6,031,038
Real return bonds and commodities	2,152,258	2,976,569
Equities		
Public equities and absolute return strategies	39,937,952	32,866,738
Private equity and venture capital	4,169,538	4,650,167
Overlays	175,250	251,363
Currency derivatives	-	(39,123)
	$ 98,412,336	$ 88,972,890

[1] General Revenue Fund Policy loans have been excluded as they are managed by the Ministry of Treasury Board and Finance.

NOTE 13 RELATED PARTY TRANSACTIONS

Related parties are the government funds, pension plans and other entities for which the Corporation provides investment management services. The Corporation had the following transactions with related parties recorded at the exchange amount which is the amount of consideration agreed upon between the related parties:

NOTE 13 RELATED PARTY TRANSACTIONS (continued)

for the year ended March 31, ($ thousands)	2017	2016
Revenues		
Indirect cost recoveries [1]	$ 144,955	$ 150,184
Interest income [1]	327	226
	145,282	150,410
Expenses		
Interest on advance from Province of Alberta	359	369
Contracted services [2]	743	684
	1,102	1,053
Assets		
Accounts receivable [1]	11,995	11,605
Liabilities		
Accounts payable	9	129
Advance from Province of Alberta	63,349	66,349
	63,358	66,478

[1] Recovered from government funds, pension plans and other entities.

[2] Transacted with the Ministry of Treasury Board and Finance and other entities.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE

The Corporation has a pay for performance strategy that exists to attract, retain and motivate top performers. Base salaries are market driven and variable compensation programs reward long-term value-added performance.

The tables below present total compensation of the directors and senior management of the Corporation earned for the year ended March 31, 2017 in accordance with direction from the Department of Treasury Board and Finance.

for the year ended March 31, ($ thousands)						**2017**	**2016**
	Base Salary(1)	**Incentive Plan** **Annual**(2)	**Incentive Plan** **Long-Term**(3)	**Other Cash Benefits**(4)	**Other Non-Cash Benefits**(5)	**Total**	Total
Chairman of the Board(6)	$ -	$ -	$ -	$ 98	$ -	$ 98	$ 95
Board Members(6)	-	-	-	533	-	533	442
Chief Executive Officer	500	1,323	-	145	90	2,058	1,971
Chief Investment Officer	425	1,141	1,697	1	78	3,342	2,197
EVP, Private Markets	334	699	955	-	50	2,038	1,792
EVP, Public Equities	294	530	897	1	60	1,782	1,137
EVP, Fixed Income	294	552	867	-	61	1,774	1,058
Chief Corporate & HR Officer	285	336	285	1	56	963	1,132
Chief Financial Officer (Acting) (7)	166	59	129	-	23	377	-
Chief Financial Officer (8)	166	-	-	17	25	208	873
SVP, Operations	242	198	207	1	34	682	719
Chief Legal Officer (9)	245	213	139	-	41	638	511
Chief Risk Officer (10)	252	151	-	156	34	593	-
SVP, Client Relations (11)	100	-	-	-	18	118	-
Chief Client Relations & Legal Officer (12)	-	-	-	-	-	-	1,490
Chief Risk Officer (13)	-	-	-	-	-	-	1,600

(1) Base salary consists of all regular pensionable base pay earned.

(2) Annual incentive plan is accrued based on goal attainment for the calendar year and paid in the subsequent period.

(3) Long-term incentive plan consists of amounts that became eligible for payment in the year and paid in a subsequent period.

(4) Other cash benefits consist of RFU amounts that became eligible for payment in the year and paid in a subsequent period, severance, lump sum payments, and any other direct cash remuneration.

(5) Other non-cash benefits consist of the Corporation's share of all employee benefits and contributions or payments made on behalf of employees, including pension, supplementary retirement plans, statutory contributions, and health plan coverage.

(6) The Board consisted of between 11 and 14 independent members during fiscal 2016-17, including the Chairman whose compensation is disclosed separately.

(7) The incumbent was appointed Chief Financial Officer (Acting) on October 28, 2016. Previously, he was Senior Finance Manager.

(8) The incumbent left the Corporation on October 28, 2016.

(9) The incumbent was appointed CLO on March 31, 2016. Previously, he was Senior Legal Counsel.

(10) The incumbent commenced employment with the Corporation on May 2, 2016.

(11) The incumbent commenced employment with the Corporation on November 1, 2016.

(12) The incumbent left the Corporation on February 16, 2016.

(13) The incumbent left the Corporation on February 26, 2016.

NOTE 14 SALARIES AND BENEFITS DISCLOSURE (continued)

LTIP grants are awarded at the start of each fiscal year. The resulting value, if any, is paid out after the end of a four year vesting period and is based on long-term value-added performance. The tables below show the LTIP grants as originally awarded and estimated potential future payouts for each named executive. The future value of awards granted for 2014, 2015 and 2016 but not vested are estimated as at March 31, 2017 based on actual performance for calendar years 2014, 2015 and 2016 and pro forma multipliers of 1.0 (target) for future years. For awards granted in 2017, the future payout is estimated as at March 31, 2017 based on pro forma multipliers of 1.0 (target) for calendar year 2017 and all future years.

No amount is payable if performance is below a certain level or if the vesting and payment conditions pursuant to the plan are not met.

	Original (Notional) Grant Value				
($ thousands)	As at March 31, 2016	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2017
Chief Executive Officer	1,000	500	-	-	1,500
Chief Investment Officer	2,426	695	(566)	-	2,555
EVP, Private Markets	1,330	334	(327)	(3)	1,334
EVP, Public Equities	1,278	396	(299)	-	1,375
EVP, Fixed Income	1,233	499	(289)	-	1,443
Chief Corporate & HR Officer	660	143	(111)	-	692
Chief Financial Officer (Acting) (1)	210	27	(50)	-	187
Chief Financial Officer (2)	538	-	-	(538)	-
SVP, Operations	443	97	(94)	31	477
Chief Legal Officer	311	104	(54)	-	361
Chief Risk Officer (3)	-	330	-	-	330
SVP, Client Relations (4)	-	96	-	-	96

	Estimated Future Payout				
($ thousands)	As at March 31, 2016	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2017
Chief Executive Officer	$ 1,593	$ 564	$ -	$ -	$ 2,157
Chief Investment Officer	$ 5,084	$ 966	$ (1,697)	$ -	$ 4,354
EVP, Private Markets	$ 2,986	$ 666	$ (955)	$ -	$ 2,697
EVP, Public Equities	$ 2,797	$ 369	$ (897)	$ -	$ 2,269
EVP, Fixed Income	$ 2,557	$ 1,310	$ (867)	$ -	$ 3,000
Chief Corporate & HR Officer	$ 1,108	$ 187	$ (285)	$ -	$ 1,010
Chief Financial Officer (Acting) (1)	$ 392	$ 48	$ (129)	$ -	$ 311
Chief Financial Officer (2)	$ 980	$ -	$ -	$ (980)	$ -
SVP, Operations	$ 701	$ 194	$ (207)	$ -	$ 688
Chief Legal Officer	$ 510	$ 116	$ (139)	$ -	$ 487
Chief Risk Officer (3)	$ -	$ 321	$ -	$ -	$ 321
SVP, Client Relations (4)	$ -	$ 96	$ -	$ -	$ 96

(1) The incumbent was appointed Chief Finanacial Officer (Acting) on October 28, 2016.
(2) The incumbent left the Corporation on October 28, 2016.
(3) The incumbent commenced employment with the Corporation on May 2, 2016.
(4) The incumbent commenced employment with the Corporation on November 1, 2016

NOTE 14 SALARIES AND BENEFITS DISCLOSURE (continued)

RFU awards are granted on a discretionary basis to bridge the gap period between when an individual commences employment and when LTIP grants begin vesting. RFU awards have time horizons of one to three year vesting periods. The table below shows the RFU grants and estimated future payouts for each named executive. For awards granted in 2016, the estimated future payout is estimated to be equal to the grant amount.

	Notional Value				
($ thousands)	As at March 31, 2016	Granted in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2017
Chief Executive Officer	250	-	(125)	-	125
Chief Risk Officer [(1)]	-	441	(147)	-	294

	Estimated Future Payout				
($ thousands)	As at March 31, 2016	Change in Estimated Future Payout in Year	Eligible for Payout in Year	Forfeited or Adjusted in Year	As at March 31, 2017
Chief Executive Officer	$ 273	$ 16	$ (144)	$ -	$ 145
Chief Risk Officer [(1)]	$ -	$ 467	$ (156)	$ -	$ 311

[(1)] The incumbent commenced employment with the Corporation on May 2, 2016.

NOTE 15 CONTRACTUAL OBLIGATIONS

Contractual obligations of $36,057 (2016: $42,427) are obligations to others that will become liabilities in the future when the terms of those contracts or agreements are met. The Corporation has entered into various agreements with minimum annual commitments for office space and other contracted services. Estimated payment requirements for each of the next five years and thereafter are as follows:

as at March 31, ($ thousands)	2017
2018	$ 15,216
2019	9,969
2020	7,588
2021	1,936
2022	1,055
Thereafter	293
Total	$ 36,057

The Corporation entered into a lease agreement commencing January 1, 2010, for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $6,768 which has been recognized as a reduction in lease expense over the 10-year term of the lease.

The Corporation also entered into a lease agreement commencing April 30, 2013, for nine years, with an option to renew for a further six years. Included in this agreement is a lease inducement of $300 to be recognized as a reduction in lease expense over the nine-year term of the lease.

The total deferred lease inducement as at March 31, 2017 is $1,922 (2016: $2,671).

Pursuant to Order in Council 23/2008, the Province of Alberta has made available a facility to access up to a maximum of $300,000 for letters of credit for security purposes. This facility is utilized by the investment pools and at March 31, 2017 the balance outstanding against the facility is $250,708 (2016: $226,131).

NOTE 16 2016-2017 BUDGET

The Corporation's budget for the year ended March 31, 2017 was approved by the Board of Directors on November 19, 2015.

NOTE 17 FINANCIAL RISK MANAGEMENT

The Corporation has minimal exposure to credit risk, liquidity risk and foreign exchange risk due to the nature of our operations.

a) Credit Risk

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the Corporation. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments is directly or indirectly impacted by credit risk to some degree. The Corporation is exposed to minimal credit risk as all our clients are established organizations that have a proven history of payment.

As at March 31, 2017, the total carrying amount in accounts receivable balance is current.

b) Liquidity Risk

Liquidity risk is the risk that the Corporation will encounter difficulty in meeting obligations associated with its financial liabilities. The Corporation has limited exposure to liquidity risk as it recovers all operating expenses and capital expenditures from our clients on a cost recovery basis.

Liquidity risk exposure is managed through regular recovery of all operating costs on a monthly basis. Further, the Corporation's Board of Directors may approve recoveries greater than costs to maintain or increase the Corporation's general reserve, in the event additional funding is needed.

c) Foreign Exchange Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. The Corporation has limited exposure to foreign exchange risk as amounts are payable and paid in a timely manner.

The carrying amount of the Corporation's US and Great Britain Pounds denominated foreign currency in accounts payable and accrued liabilities as at March 31, 2017 is $1,245 (2016: $345) and $24 (2016: $151) respectively.

d) Interest Rate Risk

The Corporation is exposed to interest rate risk from our advance from the Province of Alberta. The sensitivity of the Corporation's operating surplus due to a 1% change in the interest rate is $633 (2016: $663).

NOTE 18 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were approved by the Board of Directors on May 25, 2017.

ALBERTA LOCAL AUTHORITIES PENSION PLAN CORPORATION

Financial Statements

Year Ended December 31, 2016

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Independent Auditor's Report

AUDITOR
GENERAL
Alberta

To the Shareholder of Alberta Local Authorities Pension Plan Corp.

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Local Authorities Pension Plan Corp., which comprise the statement of financial position as at December 31, 2016, and the statements of operations and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Local Authorities Pension Plan Corp. as at December 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets,and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2017
Edmonton, Alberta

Alberta Local Authorities Pension Plan Corp.
Statement of Financial Position
As at December 31, 2016

	(thousands) 2016	(thousands) 2015
Financial Assets		
Cash	$ 255	$ 277
Accounts receivable	2	1
	257	278
Liabilities		
Accrued liabilities	62	189
Deferred revenue (Note 6)	195	89
	257	278
Net Financial Assets and Net Assets	$ -	$ -

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

[original signed by]

Darren Sander
Chair of the Board

[original signed by]

Kim Craig
Audit Committee Chair

Approved by Management:

[original signed by]

Christopher A. Brown
President & CEO

Alberta Local Authorities Pension Plan Corp.
Statement of Operations
For the year ended December 31, 2016

	Budget 2016 (Note 10)	Actual 2016	Actual 2015
	(thousands)		
Revenue			
Service revenue (Note 6)	$ 3,504	$ 2,345	$ 2,334
Miscellaneous revenue	-	2	3
Total revenue	3,504	2,347	2,337
Operating costs			
Salaries and benefits (Note 8)	1,555	1,191	1,193
Professional fees	495	344	191
Stakeholder Relations & Communication	539	296	330
Board costs	285	138	167
Actuarial services	369	165	252
General and administrative	261	213	204
Total operating costs	3,504	2,347	2,337
Annual surplus	$ -	$ -	$ -

The accompanying notes are an integral part of these financial statements.

Alberta Local Authorities Pension Plan Corp.
Statement of Cash Flows
For the year ended December 31, 2016

	(thousands) 2016	 2015
Operating activities		
Annual surplus	$ -	$ -
Changes in non-cash working capital		
Decrease (Increase) in accounts receivable	(1)	-
Increase (Decrease) in accrued liabilities	(127)	(52)
Increase (Decrease) in deferred revenue	106	(133)
Increase (Decrease) in cash for the year	(22)	(185)
Cash at beginning of year	277	462
Cash at end of year	$ 255	$ 277

The accompanying notes are an integral part of these financial statements.

Alberta Local Authorities Pension Plan Corp.
Notes to the financial statements
December 31, 2016

1. Authority

Alberta Local Authorities Pension Plan Corp. (the Corporation) was incorporated under the *Business Corporations Act*, Chapter B-9, Revised Statutes of Alberta 2000 and commenced operations on January 1, 2006. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

2. Nature of operations

The President of Treasury Board, Minister of Finance of Alberta, operating under the authority of the *Public Sector Pension Plans Act*, Chapter P-41, Revised Statutes of Alberta 2000 (the Act) and the *Financial Administration Act*, Chapter F-12, RSA 2000, is responsible for administering the Local Authorities Pension Plan (the Plan). Certain governance services are provided by the Corporation pursuant to a delegation from the Minister and an Administrative Services Agreement with the Minister, each effective January 1, 2006. These services include supporting the Board of Trustees of the Plan in performing its statutory functions under the Act, and providing strategic guidance for the Plan.

3. Summary of significant accounting policies and reporting practices

These financial statements have been prepared by management in accordance with Canadian public sector accounting standards.

Revenue

All revenues are reported on the accrual basis of accounting. Revenue for future expenses received in advance is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed.

Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations. Financial assets of the Corporation are limited to cash and accounts receivable.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

Fair value of cash, accounts receivable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments.

Financial instruments

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no re-measurement gains and losses and therefore a statement of re-measurement gains and losses has not been presented.

Net Financial Assets

The Corporation's operations are designed so that it will not have net operating results, net financial assets or net assets other than zero (see Note 6). The Corporation does not have any transactions to present on a statement of change in net financial assets. Therefore a statement of change in net financial assets has not been presented.

4. Future Accounting Changes

In June 2015 the Public Sector Accounting Board issued the following accounting standards:

PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017).

PS 2200 defines a related party and establishes disclosures required for related party transactions: PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective. Management is currently assessing the impact of these standards on the financial statements.

PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017).

PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets: PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights. Management is currently assessing the impact of these standards on the financial statements.

PS 3430 Restructuring Transactions (effective April 1, 2018).

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities. Management is currently assessing the impact of these standards on the financial statements.

5. Share capital

	2016	2015
Authorized		
Unlimited number of Class “A” common shares		
Issued		
100 Class “A” common shares (Note 1)	$ 1	$ 1

6. Service revenue / Deferred Revenue

The Corporation commenced charging the Local Authorities Pension Plan for its operating costs, as authorized by the Administrative Services Agreement with the President of Treasury Board, Minister of Finance, effective January 1, 2006. Therefore, revenue is recognized as the related expenses are incurred and recorded by the Corporation.

7. Commitments

The Corporation has entered into agreements with minimum annual commitments for office space and automobile parking space as follows:

	(thousands)
2017	$ 183
2018	$ 167
2019	$ 139
	$ 517

8. Salaries and benefits disclosure

(thousands)

	2016				2015
	Base Salary (a)	Other Cash Benefits (b)	Other Non-cash Benefits (c)	Total	Total
Corporation Board Chair	$ -	$ -	$ -	$ $ -	$ -
Corporation Board Members (excluding Chair)	-	68	-	68	80
President & Chief Executive Officer	248	62	67	377	356
Vice-Presidents:					
Investments	153	55	7	215	211
Pension Policy & Funding	152	31	39	222	211
Stakeholder Relations	158	30	43	231	219

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria. Board members only receive remuneration pay. Remuneration is paid in accordance with the fee structure approved by the Minister of Finance.

(c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

9. Defined benefit plans (thousands)

The Corporation participates in two multi-employer public sector pension plans, the Management Employees Pension Plan and the Public Service Pension Plan. The Corporation also participates in the multi-employer Supplementary Retirement Plan for Public Service Managers. The expense for these pension plans is equivalent to the annual contributions of $135 for the year ended December 31, 2016 (2015: $122).

At December 31, 2015, the Management Employees Pension Plan reported a surplus of $299,051 (2014: surplus of $75,805), the Public Service Pension Plan reported a deficiency of $133,188 (2014: deficiency of $803,299) and the Supplementary Retirement Plan for Public Service Managers reported a deficiency of $16,305 (2014: deficiency of $17,203).

10. Approval of 2016 budget

The 2016 budget of $3,564,000 was approved by the Corporation's Board of Directors on October 16, 2015. A revised 2016 budget of $3,504,000 was approved by the Board of Directors on April 22, 2016 and the Corporation was notified of the approval on the revised budget of $3,504,000 by the Department of Treasury Board and Finance on May 18, 2016.

11. Financial statement approval

The financial statements were approved by the Corporation's Board of Directors on April 28, 2017.

ALBERTA PENSIONS SERVICES CORPORATION

Financial Statements

Year Ended December 31, 2016

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These Alberta Pensions Services Corporation (APS) Financial Statements are a copy from the APS 2016 Annual Report. A complete copy of the APS Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the APS website at www.apsc.ca.

INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL
Alberta

To the Shareholder of Alberta Pensions Services Corporation

Report on the Financial Statements

I have audited the accompanying financial statements of Alberta Pensions Services Corporation, which comprise the statement of financial position as at December 31, 2016, and the statements of operations, change in net debt, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of Alberta Pensions Services Corporation as at December 31, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net debt, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

AUDITOR GENERAL
April 26, 2017
Edmonton, Alberta

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF OPERATIONS

YEAR ENDED DECEMBER 31

(in thousands)	2016 Budget	2016 Actual	2015 Actual
Expenses			
Staff and related expenses	$ **30,714**	$ **31,581**	$ 30,274
Contract services	**4,964**	**5,453**	7,472
Materials and supplies	**5,209**	**5,050**	5,230
Amortization	**4,145**	**3,811**	2,180
Data processing and maintenance	**6,514**	**6,753**	4,957
Total before plan specific and employer specific services	**51,546**	**52,648**	50,113
Plan specific services (Note 5)	**4,043**	**2,795**	3,433
Employer specific services (Note 6)	**82**	**80**	81
Total operating expenses	$ **55,671**	$ **55,523**	$ 53,627
Recovery of costs (Note 7)	$ **55,671**	$ **55,523**	$ 53,627
Annual surplus (deficit)	**-**	**-**	-
Net assets at beginning of year	**-**	**-**	-
Net assets at end of year	$ **-**	$ **-**	$ -

Contractual obligations (Note 12)

The accompanying notes are an integral part of these financial statements.

Approved by the Board:

[Original signed]

ROSEMARIE MCCLEAN
Vice Chair, *Board of Directors*

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF FINANCIAL POSITION

AS AT DECEMBER 31

(in thousands)		**2016**		2015
Financial assets				
Cash	**$**	**298**	$	288
Accounts receivable		**19**		9
Due from pension plans (Note 7)		**6,681**		6,447
		6,998		6,744
Liabilities				
Accounts payable and accrued liabilities	**$**	**4,700**	$	4,460
Accrued salaries and benefits		**2,634**		2,480
Accrued vacation pay		**415**		308
Deferred lease inducement (Note 12)		**485**		672
Capital lease obligation (Note 12)		**159**		-
		8,393		7,920
Net debt	**$**	**(1,395)**	$	(1,176)
Non-financial assets				
Tangible capital assets (Note 8)	**$**	**49,358**	$	46,471
Prepaid expenses		**1,395**		1,176
		50,753		47,647
Net assets before spent deferred capital contributions		**49,358**		46,471
Spent deferred capital contributions (Note 8)		**49,358**		46,471
Net assets (Note 9)	**$**	**-**	$	-

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF CHANGE IN NET DEBT

AS AT DECEMBER 31

(in thousands)	**2016** Budget	**2016** Actual	2015 Actual
Annual surplus (deficit)	**$ -**	**$ -**	$ -
Acquisition of tangible capital assets (Note 8)	**(8,271)**	**(6,698)**	(12,785)
Amortization of tangible capital assets (Note 8)	**4,145**	**3,811**	2,180
Change in spent deferred capital contributions	**4,126**	**2,887**	10,605
Change in prepaid expenses	**-**	**(219)**	(311)
(Increase) in net debt	**-**	**(219)**	(311)
Net debt at beginning of year	**(1,176)**	**(1,176)**	(865)
Net debt at end of year	**$ (1,176)**	**$ (1,395)**	$ (1,176)

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

STATEMENT OF CASH FLOWS

YEAR ENDED DECEMBER 31

(in thousands)	**2016**	2015
Operating transactions		
Annual surplus (deficit)	**$ -**	$ -
Non-cash items:		
Amortization of tangible capital assets (Note 8)	**3,811**	2,180
Decrease in deferred lease inducement (Note 12)	**(187)**	(187)
Increase in capital lease obligation (Note 12)	**199**	-
Amortization of spent deferred capital contributions (Note 8)	**(3,811)**	(2,180)
	12	(187)
(Increase) decrease in accounts receivable	**(10)**	42
(Increase) in prepaid expenses	**(219)**	(311)
(Increase) in due from pension plans	**(234)**	(1,126)
Increase in accounts payable and accrued liabilities	**240**	1,503
Increase in accrued salaries and benefits	**154**	74
Increase in accrued vacation pay	**107**	20
Cash provided by operating transactions	**50**	15
Capital transactions		
Acquisition of tangible capital assets (Note 8)	**(6,698)**	(12,785)
Cash applied to capital transactions	**(6,698)**	(12,785)
Financing transactions		
Increase in spent deferred capital contributions (Note 8)	**6,698**	12,785
Repayment of capital lease obligation (Note 12)	**(40)**	-
Cash provided by financing transactions	**6,658**	12,785
Increase in cash	**10**	15
Cash at beginning of year	**288**	273
Cash at end of year	**$ 298**	$ 288

The accompanying notes are an integral part of these financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

1. AUTHORITY

Alberta Pensions Services Corporation (APS) is incorporated under the *Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000*. The issued share of the Corporation is owned by the President of Treasury Board and Minister of Finance (the Minister) on behalf of the Government of Alberta and, accordingly, the Corporation is exempt from income taxes under the *Income Tax Act*. APS is referred to as "the Corporation" throughout the Notes to the Financial Statements.

2. NATURE OF OPERATIONS

The Minister, operating under the authority of the *Public Sector Pension Plans Act, Chapter P-41, Revised Statutes of Alberta 2000*, is responsible for administering the following public sector pension plans:

- Local Authorities Pension Plan (LAPP)
- Public Service Pension Plan (PSPP)
- Management Employees Pension Plan (MEPP)
- Special Forces Pension Plan (SFPP)
- Public Service Management (Closed Membership) Pension Plan (PSM(CM)PP)

The Minister, operating under the authority of the *Provincial Court Act* and the *Court of Queen's Bench Act, Chapter 196, Regulation 2001*, is responsible for administering the following public sector pension plans.

- Provincial Judges and Masters in Chambers (Registered) Pension Plan (PJMC(R)PP)
- Provincial Judges and Masters in Chambers (Unregistered) Pension Plan (PJMC(U)PP)

The Minister, operating under the authority of the *Members of the Legislative Assembly Pension Plan Act, Chapter M-12, Revised Statutes of Alberta 2000*, is responsible for administering the following public sector pension plan:

- Members of the Legislative Assembly Pension Plan (MLAPP)

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

2. NATURE OF OPERATIONS (CONTINUED)

The Minister, operating under the authority of the *Financial Administration Act, Chapter F-12, Revised Statutes of Alberta 2000* and the *Supplementary Retirement Plan – Retirement Compensation Arrangement Directive (Treasury Board Directive 01/06)*, is responsible for administering the following public sector pension plan:

- Supplementary Retirement Plan for Public Service Managers (MSRP)

Specific pensions services required by the pension plans and employers are provided by the Corporation pursuant to a Pensions Services Agreement with the Minister through to December 31, 2018. These services include the collection and recording of contributions, calculating and paying benefits, communicating to plan members and employers, pension plan board support services and risk management services. The Corporation also provides specific services, on a cost-recovery basis, for some employers (Note 6).

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

These financial statements are prepared by management in accordance with Canadian public sector accounting standards (PSAS).

Recovery of Costs

All recoveries of costs are reported on the accrual basis of accounting. Accruals for the recovery of costs are recognized as the related expenses are incurred.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year are expensed.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Valuation of Financial Assets and Liabilities

The Corporation's financial assets and liabilities are generally measured as follows:

FINANCIAL STATEMENT COMPONENT	MEASUREMENT
Cash and cash equivalents	Cost
Accounts receivable and due from pension plans	Lower of cost or net recoverable value
Accounts payable and accrued liabilities, salaries and benefits	Cost

Financial Assets

Financial assets are the Corporation's financial claims on external organizations and individuals.

CASH AND CASH EQUIVALENTS

Cash is comprised of cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to an insignificant risk of change in value. Cash equivalents are held for the purpose of meeting short-term commitments rather than for investment purposes.

ACCOUNTS RECEIVABLE

Accounts receivable are recognized at the lower of cost or net recoverable value. A valuation allowance is recognized when recovery is uncertain.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Liabilities

Liabilities represent present obligations of the Corporation to external organizations and individuals arising from transactions or events occurring before the year end. They are recognized when there is an appropriate basis of measurement and management can reasonably estimate the amount.

Liabilities also include:

- all financial claims payable by the Corporation at the year end;
- accrued employee vacation entitlements; and
- contingent liabilities where future liabilities are likely.

Non-financial Assets

Non-financial assets are limited to tangible capital assets and prepaid expenses.

TANGIBLE CAPITAL ASSETS

Tangible capital assets are recognized at cost, which includes amounts that are directly related to the acquisition, design, construction, development, improvement or betterment of the assets and overhead directly attributable to construction and development.

Assets under construction, which include development of information systems, are not amortized until after a project is complete (or substantially complete) and the asset is put into service.

Capital lease liabilities are recognized at the present value of the minimum lease payments excluding executory costs (e.g. insurance, maintenance costs, etc.). The discount rate used to determine the present value of the lease payments is the lower of the Corporation's rate for incremental borrowing or the interest rate implicit in the lease. Note 12 provides a schedule of repayments and amount of interest on the leases.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

The cost, less residual value, of the tangible capital assets is amortized on a straight-line basis over their estimated useful lives as follows:

Assets under construction	Refer to (a) below
Leasehold improvements	Refer to (b) below
Compass system (c)	12 years
Furniture and equipment	5 years
Computer hardware and software	3 years
Telephone system	3 years

(a) Assets under construction, which include the replacement of the current pension administration system and the development of its applications, are not amortized.

(b) Amortization is over the term of lease, up to a maximum of five years.

(c) The Compass system includes the portion of costs transferred from assets under construction as the asset becomes available for productive use. The Compass system is the replacement for the existing pension administration system. The Corporation changed its estimated useful life of the Compass system from 10 to 12 years. This change in accounting estimate has been accounted for prospectively, effective January 1, 2016.

The threshold for capitalizing software is $100,000 and $5,000 for all other items, where these items have a useful life in excess of one year.

Tangible capital assets are written down when conditions indicate that they no longer contribute to the Corporation's ability to provide goods and services, or when the value of future economic benefits associated with the tangible capital assets are less than their net book value.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PREPAID EXPENSES

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

Financial Instruments

Financial instruments of the Corporation consist of cash, accounts receivable, due from pension plans, accounts payable and accrued liabilities, accrued salaries and benefits, and accrued vacation pay. Due to their short-term nature, the carrying value of these instruments approximates their fair value.

As the Corporation does not have any transactions involving financial instruments that are classified in the fair value category, there are no remeasurement gains and losses and therefore, a statement of remeasurement gains and losses has not been presented.

Use of Estimates

The preparation of financial statements in conformity with Canadian PSAS requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses as well as the disclosure of contingent assets and liabilities in the financial statements. Actual results could differ from these estimates, and the impact of any such differences will be recognized in future periods. The significant area requiring the use of management estimates relates to the estimated useful lives of tangible capital assets.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

4. FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has issued the following accounting standards:

Financial Instruments

- **PS 2200 Related Party Disclosures and PS 3420 Inter-Entity Transactions (effective April 1, 2017)**
  PS 2200 defines a related party and establishes disclosures required for related party transactions; PS 3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.
- **PS 3210 Assets, PS 3320 Contingent Assets, and PS 3380 Contractual Rights (effective April 1, 2017)**
  PS 3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS 1000, and establishes general disclosure standards for assets; PS 3320 defines and establishes disclosure standards on contingent assets; PS 3380 defines and establishes disclosure standards on contractual rights.
- **PS 3430 Restructuring Transactions (effective April 1, 2018)**
  This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the financial statements.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

5. PLAN SPECIFIC SERVICES

(in thousands)

The Corporation makes certain payments on behalf of the public sector pension boards or committees. These expenses, which are incurred directly by the boards or committees and which the Corporation does not control, are as follows:

Plan		**2016**		2015
PSPP	**$**	**972**	$	1,189
SFPP		**863**		1,300
MEPP		**772**		714
MSRP		**61**		37
LAPP		**55**		64
PSM(CM)PP		**30**		48
MLAPP		**21**		36
PJMC(R)PP		**15**		22
PJMC(U)PP		**6**		23
	$	**2,795**	$	3,433

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

6. EMPLOYER SPECIFIC SERVICES

(in thousands)

In 2008, the Minister approved the Corporation administering post retirement benefits for certain employers who participate in the public sector pension plans. All costs associated with administering these benefits are recovered directly from the specific employers as follows:

Employer		**2016**		2015
Alberta Health Services	**$**	**1**	$	-
City of Edmonton		**1**		2
EPCOR		**1**		2
Government of Alberta		**1**		2
Legislative Assembly		**1**		-
		5		6
Alberta Investment Management Corporation[1]		**75**		75
	$	**80**	$	81

[1] The Corporation entered into an agreement to provide certain administration services on a cost-recovery basis to Alberta Investment Management Corporation (AIMCo), a related Crown Corporation, in respect of an AIMCo supplementary retirement plan.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

7. RECOVERY OF COSTS

(in thousands)

The Corporation charges each public sector pension plan with its proportionate share of the Corporation's operating and plan specific costs based on the allocation formula approved by the Minister. At December 31, 2016, $6,681 (2015 - $6,447) is receivable from the plans. The receivable at year end is directly related to the timing of the receipt and disbursement of funds.

Plan		2016		2015
LAPP	$	**36,466**	$	34,599
PSPP		**13,308**		13,040
MEPP		**2,471**		2,330
SFPP		**1,929**		2,327
MSRP		**703**		622
PSM(CM)PP		**301**		325
PJMC(R)PP		**90**		97
PJMC(U)PP		**81**		98
MLAPP		**71**		87
		55,420		53,525
Interest and other miscellaneous cost recoveries		**23**		21
Employer specific services (Note 6)		**80**		81
	$	**55,523**	$	53,627

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

8. TANGIBLE CAPITAL ASSETS

(in thousands)

						2016	2015
	Compass system	**Computer hardware & software[2]**	**Leasehold improvements**	**Furniture & equipment**	**Telephone system**	**Total**	Total
Estimated useful life	**12 years**	**3 years**	**Note 3(b)**	**5 years**	**3 years**		
Historical Cost[1]							
Beginning of year	**$ 44,971**	**$ 23,633**	**$ 7,930**	**$ 1,734**	**$ 45**	**$ 78,313**	$ 65,968
Additions	**4,229**	**2,410**	**59**	**-**	**-**	**6,698**	12,785
Disposals, including write-downs	**-**	**(19,042)**	**(1,654)**	**(250)**	**-**	**(20,946)**	(440)
	49,200	**7,001**	**6,335**	**1,484**	**45**	**64,065**	78,313
Accumulated Amortization							
Beginning of year	**1,369**	**21,178**	**7,739**	**1,511**	**45**	**31,842**	30,102
Amortization expense	**2,450**	**1,189**	**94**	**78**	**-**	**3,811**	2,180
Effect of disposals, including write-downs	**-**	**(19,042)**	**(1,654)**	**(250)**	**-**	**(20,946)**	(440)
	3,819	**3,325**	**6,179**	**1,339**	**45**	**14,707**	31,842
Net Book Value at December 31, 2016	**$ 45,381**	**$ 3,676**	**$ 156**	**$ 145**	**$ -**	**$ 49,358**	
Net Book Value at December 31, 2015	**$ 43,602**	**$ 2,455**	**$ 191**	**$ 223**	**$ -**		$ 46,471

Financing obtained from the public sector pension plans to acquire tangible capital assets is recognized as spent deferred capital contributions. The recovery of costs is recognized on the same basis as the tangible capital assets are amortized.

[1] Historical cost includes assets under construction at December 31, 2016 totalling $2,432 (2015 - $33,978) comprised of Compass system $1,270 (2015 - $33,612) and computer hardware and software $1,162 (2015 - $366).

[2] Cost of computer hardware under capital lease is $199 and related accumulated amortization is $11.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

9. SHARE CAPITAL

	2016	2015
Issued:		
1 common share	**$ 1**	$ 1

An unlimited number of common and preferred shares are authorized with a single common share issued (Note 1).

10. EMPLOYEE FUTURE BENEFITS

(in thousands)

The Corporation participates in three multi-employer, defined benefit public sector pension plans: PSPP, MEPP and MSRP. Multi-employer plans are accounted for as defined contribution plans. Accordingly, the Corporation does not recognize its share of any plan surplus or deficit. The expense for these pension plans is equivalent to the annual contributions of $3,714 for the year ended December 31, 2016 (2015 - $3,607). This amount is included in staff and related expenses.

An actuarial valuation is performed to assess the financial position of the plan and adequacy of the plan funding. At December 31, 2015, PSPP reported a deficiency of $133,188 (2014 - deficiency of $803,299), MEPP reported a surplus of $299,051 (2014 - surplus of $75,805) and MSRP had a deficiency of $16,305 (2014 - deficiency of $17,203).

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

11. RELATED PARTY TRANSACTIONS

(in thousands)

The Corporation received the following services at amounts which approximate market value from:

		2016		2015
SERVICE ALBERTA	**$**	**1,114**	$	1,128
Data processing, software licences, printing, postage and training				
TREASURY BOARD AND FINANCE		**114**		103
Risk management and insurance				
UNIVERSITY OF ALBERTA		**6**		18
Management training				
	$	**1,234**	$	1,249

At year end, $307 (2015 - $308) is payable to Service Alberta.

The Corporation also provided services to the pension plans and pension plan boards and committees as disclosed in Notes 5 and 7. These transactions are in the normal course of operations.

ALBERTA PENSIONS SERVICES CORPORATION

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2016

12. CONTRACTUAL OBLIGATIONS

(in thousands)

The Corporation has entered into some multi-year agreements whereby the Corporation will be obligated to make future payments when the goods or services are received. Significant contractual obligations that can be reasonably estimated are summarized as follows:

YEAR	Operating[1]	Capital[2]	Total
2017	$ **3,129**	$ **40**	$ **3,169**
2018	**2,053**	**40**	**2,093**
2019	**1,336**	**40**	**1,376**
2020	**19**	**39**	**58**
2021	**-**	**-**	**-**
Thereafter	**-**	**-**	**-**
	$ **6,537**	$ **159**	$ **6,696**

[1] The Corporation entered into a lease agreement for a new facility commencing on September 1, 2009. This agreement is for 10 years, with two optional renewal periods of five years each. As part of the lease agreement, the Corporation received a lease inducement of $1,868. The inducement is recognized as a reduction in lease expense over the 10-year term of the lease.

In 2012, the Corporation entered into an agreement for consulting services related to a major pension services systems replacement project which was substantially completed by December 2016. Contractual obligations over the next year total $1,056.

[2] The Corporation has entered into a lease agreement for computer hardware. The capital payments are fixed, equal annual payments at zero percent interest. The present value of these capital payments is recognized as a liability on the Statement of Financial Position.

13. SALARIES AND BENEFITS DISCLOSURE

Details of Executive and Board member remuneration are presented in the Compensation Discussion and Analysis section of the Corporation's 2016 Annual Report.

14. FINANCIAL INSTRUMENTS

Liquidity risk is the risk of not being able to meet the Corporation's cash requirements in a timely and cost-effective manner. The Corporation's only source of liquidity is amounts charged to pension plans (Note 7).

It is management's opinion that the Corporation is not exposed to any risk arising from this financial instrument.

15. 2016 BUDGET

The Corporation's 2016 budget was approved by the Board of Directors on January 27, 2016.

16. APPROVAL OF FINANCIAL STATEMENTS

The Board approved the financial statements of the Corporation.

17. COMPARATIVE FIGURES

Certain 2015 comparative figures have been reclassified to conform to the current year's presentation.

ALBERTA SECURITIES COMMISSION

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Members of the Alberta Securities Commission

Report on the Financial Statements

I have audited the accompanying financial statements of the Alberta Securities Commission, which comprise the statement of financial position as at March 31, 2017, and the statements of operations, change in net financial assets, remeasurement gains and losses, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Securities Commission as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 14, 2017

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

thousands of dollars	**At March 31, 2017**	At March 31, 2016
Financial Assets		
Cash (Note 3)	**16,815**	10,013
Accounts receivable	**32**	402
Restricted cash (Note 3)	**535**	696
Investments (Note 4)	**29,198**	20,970
	46,580	32,081
Liabilities		
Accounts payable and accrued liabilities	**5,284**	4,613
Lease inducements	**1,898**	2,116
Accrued pension liability (Note 6)	**8,763**	8,000
	15,945	14,729
Net Financial Assets	**30,635**	17,352
Non-Financial Assets		
Capital assets (Note 5)	**5,429**	5,965
Prepaid expenses	**241**	261
	5,670	6,226
Accumulated Surplus	**36,305**	23,578
Accumulated surplus is comprised of:		
Accumulated operating surplus	**35,700**	23,135
Accumulated remeasurement gains	**605**	443
	36,305	23,578

Commitments and contingent liabilities (Note 9)

The accompanying notes and schedule are part of these financial statements.

Approved by the Members

Original signed by

STAN MAGIDSON
Chair and Chief Executive Officer

Original signed by

TERRY ALLEN
Chair of the Audit Committee

June 14, 2017

STATEMENT OF CHANGE IN NET FINANCIAL ASSETS

thousands of dollars		For year ended March 31	
	2017	**2017**	2016
	Budget (Note 10)	**Actual**	Actual
Operating Surplus (Deficit)	**(8,049)**	**12,565**	(1,312)
Acquisition of capital assets	**(665)**	**(580)**	(434)
Amortization of capital assets	**1,310**	**1,116**	1,255
Losses (Gains) on sale of capital assets		**(1)**	1
Proceeds on sale of capital assets		**1**	-
Prepayment of expenses		**(439)**	(397)
Reduction of prepaid expenses		**459**	427
Net remeasurement gains (losses)		**162**	(1,281)
Increase (Decrease) in net financial assets	**(7,404)**	**13,283**	(1,741)
Net financial assets, beginning of year	**17,352**	**17,352**	19,093
Net financial assets, end of year	**9,948**	**30,635**	17,352

The accompanying notes and schedule are part of these financial statements.

STATEMENT OF OPERATIONS

thousands of dollars		For year ended March 31	
	2017	**2017**	2016
	Budget (Note 10)	**Actual**	Actual
Revenue			
Fees (Note 7)	**30,285**	**48,336**	33,571
Investment income (Note 4)	**1,000**	**1,439**	1,226
Other enforcement receipts (Note 7)	**500**	**813**	972
Administrative penalties (Note 3)	**250**	**347**	276
Conference and other	**20**	**12**	13
	32,055	**50,947**	36,058
Regulatory Expenses			
Salaries and benefits	**28,524**	**27,971**	27,571
Premises	**4,135**	**3,318**	3,411
Professional services	**2,408**	**2,762**	1,996
Administration	**3,207**	**2,697**	2,648
Amortization of capital assets	**1,310**	**1,115**	1,255
Investor education (Note 3)	**520**	**519**	489
	40,104	**38,382**	37,370
Operating surplus (deficit)	**(8,049)**	**12,565**	(1,312)
Accumulated operating surplus, beginning of year	**23,135**	**23,135**	24,447
Accumulated operating surplus, end of year	**15,086**	**35,700**	23,135

The accompanying notes and schedule are part of these financial statements.

STATEMENT OF REMEASUREMENT GAINS AND LOSSES (NOTE 4)

thousands of dollars	For year ended March 31	
	2017	2016
Accumulated remeasurement gains, beginning of year	**443**	1,724
Unrealized gains (losses) on investments during the year	**206**	(1,098)
Less: Amounts reclassified during the year to the Statement of Operations	**(44)**	(183)
Net remeasurement gains (losses) for the year	**162**	(1,281)
Accumulated remeasurement gains, end of year	**605**	443

The accompanying notes and schedule are part of these financial statements.

STATEMENT OF CASH FLOWS

thousands of dollars	For year ended March 31	
	2017	2016
Operating transactions		
Fees and other	**48,510**	33,562
Payments to and on behalf of employees	**(27,047)**	(27,318)
Payments to suppliers for goods and services	**(8,968)**	(9,508)
Investment income (Note 4)	**1,439**	1,226
Other enforcement receipts (Note 7)	**813**	972
Administrative penalties (Note 3)	**347**	276
Cash received from (used in) operating transactions	**15,094**	(790)
Capital transactions		
Cash used to acquire capital assets	**(388)**	(447)
Proceeds on sale of capital assets	**1**	-
Cash used in capital transactions	**(387)**	(447)
Investing transactions		
Decrease in restricted cash (Note 3)	**161**	372
Purchases of investments	**(9,366)**	(1,186)
Disposals of investments	**1,300**	5,000
Cash (used in) received from investing transactions	**(7,905)**	4,186
Increase in cash	**6,802**	2,949
Cash, beginning of year	**10,013**	7,064
Cash, end of year	**16,815**	10,013

The accompanying notes and schedule are part of these financial statements

Notes to the Financial Statements

March 31, 2017

NOTE 1 NATURE OF OPERATIONS

The Alberta Securities Commission (ASC), a provincial corporation operating under the *Securities Act* (Alberta), is the regulatory agency responsible for administering the province's securities laws.

The ASC, as an Alberta provincial corporation, is exempt from income tax under the *Income Tax Act* (Canada).

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements are prepared in accordance with Canadian public sector accounting standards (PSAS).

A) INVESTMENTS

The Alberta Investment Management Corporation (AIMCo) invests the ASC's assets in pooled investment funds in accordance with the investment policy asset mix approved by the ASC. AIMCo controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the ASC does not participate in capital market investment decisions or transactions.

AIMCo manages and reports all ASC investments and cash balances using the accounting policies outlined in (i), (ii), and (iii). Fixed-income securities and equities consist of units in pooled investment funds. The units are recognized at fair value based on the fair value of the financial instruments held in the pools.

i. Valuation of Investments

Fair values of investments managed and held by AIMCo in pooled investment funds are determined as follows:

- public fixed-income securities and equities are valued at the year-end closing sale price, or, if not actively traded, any price point between the bid/ask spread that is deemed to be the most representative of fair value;
- private fixed-income securities are valued based on the net present value of future cash flows. These cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market; and
- the pools include derivative contracts that contain equity and bond index swaps, interest rate swaps, cross-currency interest rate swaps, credit default swaps, forward foreign exchange contracts, and equity index futures contracts. The value of derivative contracts is included in the fair value of the pools.

ii. Investment Income and Expenses

Income from investment in units of the pools and total expense and transaction costs incurred by the pools are allocated to the ASC based on the ASC's pro-rata share of units in each pool. Investment services provided by AIMCo are charged directly to the pools on a cost-recovery basis. Investment services provided by external managers are charged to the pools based on a percentage of net assets under management. Investment income, including that from derivative contracts and expenses, is recognized on the accrual basis.

Gains and losses arising as a result of disposal of investments and related pool units are included in the determination of investment income and reported in investment income on the Statement of Operations. The cost of disposal is determined on an average-cost basis.

Interest income attributable to interest-bearing financial assets held by the pools is recognized using the effective interest method.

Dividend income attributable to equities held by the pools is recognized on the ex-dividend date.

iii. Remeasurement Gains and Losses

Accumulated remeasurement gains represent the excess of the fair value of the pool units at year-end over the cost of the pool units. Changes in accumulated remeasurement gains are recognized in the Statement of Remeasurement Gains and Losses. Changes in accumulated remeasurement gains during the year include unrealized increases and decreases in fair value of the pooled units and realized gains and losses on sale of the pool units. When the pool units are sold (derecognized), any accumulated unrealized gain or loss associated with the investment becomes realized and is included in the Statement of Operations.

B) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Cash, restricted cash, accounts receivable, accounts payable and accrued liabilities are recognized at cost or amortized cost. The fair values of each of these line items approximate their carrying values due to their short-term nature. See Notes 2(A) and (G) for the valuation of investments and accrued pension liability, respectively.

C) CAPITAL ASSETS

Capital assets are recognized at cost, which includes amounts directly related to the acquisition, design, construction, development, improvement or betterment of the assets. Capital assets are written down when conditions indicate that they no longer contribute to ASC's ability to provide goods and services, or when the value of future economic benefits associated with the capital assets are less than their net book value. The net write-downs are accounted for as expenses in the Statement of Operations.

Assets are amortized on a straight-line basis over their estimated useful lives as follows:

Computer equipment and software	3 years
Furniture and equipment	10 years
Leaseholds	one 15-year lease term to November 2025

D) PREPAID EXPENSES

Prepaid expenses are recognized at cost and amortized based on the terms of the agreement.

E) FEES, ADMINISTRATIVE PENALTIES AND OTHER ENFORCEMENT RECEIPTS RECOGNITION

Fees are recognized when earned, which is upon cash receipt.

Administrative penalties and other enforcement receipts, including disgorgements, settlement payments and cost recoveries, are recognized when the decision is issued or agreement reached and collectability is assured, which is generally upon cash receipt.

F) EXPENSES

Expenses are reported on an accrual basis. The costs of all goods consumed and services received during the year are expensed.

G) EMPLOYEE FUTURE BENEFITS

The ASC participates in the Public Service Pension Plan, a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan as the ASC has insufficient information to apply defined benefit plan accounting to this pension plan. Pension expenses recognized in these financial statements are comprised of employer contributions related to the current service of employees during the year and additional employer contributions for service relating to prior years.

The ASC established a retirement plan for one employee at the time of the transition to a provincial corporation. The employee is retired and the plan costs are fully provided for.

The ASC maintains a supplemental pension plan for certain designated executives of the ASC. The cost of the pension is actuarially determined using the projected unit credit cost method pro-rated on service as well as management's best estimate of economic assumptions. Past service costs and actuarial losses arising from assumption changes are amortized on a straight-line basis over the average remaining service period of employees active at the date of commencement of the Supplemental Pension Plan. The average remaining service period of active employees of the supplemental pension plan is five years.

The ASC also maintains a plan whereby it makes Registered Retirement Savings Plan (RRSP) contributions on behalf of certain employees of the ASC. The contributions are calculated based on a fixed percentage of the employee's salary to a maximum of the RRSP contribution limit as specified in the *Income Tax Act* (Canada). The expense included in these financial statements represents the current contributions made on behalf of the employees.

H) LEASE INDUCEMENTS

Cash payments received as lease inducements are deferred and amortized on a straight-line basis over the lease term (15 years ending November 30, 2025).

I) MEASUREMENT UNCERTAINTY

Financial statements prepared in conformity with PSAS require management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Estimates include the value of investments, the value of accrued employee benefit liabilities, the useful lives of capital assets, and uncollectible amounts of accounts receivable, including administrative penalties and related cost recoveries. Actual results could differ from those estimates.

The estimated provision for uncollectible administrative penalties and cost recoveries is based on an assessment of the ability to pay at the time of penalty assessment. Subsequent collection actions and changes in the ability to pay may result in recovery of amounts previously considered uncollectible. However, it is not possible to estimate what, if any, subsequent recoveries may occur.

J) RESTRICTED CASH

The *Securities Act* (Alberta) restricts the use of revenue the ASC receives from administrative penalties to certain operating expenditures that educate investors and enhance participants' knowledge of how securities markets operate.

K) FUTURE ACCOUNTING CHANGES

The Public Sector Accounting Board has issued the following accounting standards:

i. PS2200 Related Party Disclosures and PS3420 Inter-Entity Transactions (effective April 1, 2017)

PS2200 defines a related party and establishes disclosures required for related party transactions; PS3420 establishes standards on how to account for and report transactions between public sector entities that comprise a government's reporting entity from both a provider and recipient perspective.

ii. PS3210 Assets, PS3320 Contingent Assets, and PS3380 Contractual Rights (effective April 1, 2017)

PS3210 provides guidance for applying the definition of assets set out in FINANCIAL STATEMENT CONCEPTS, Section PS1000, and establishes general disclosure standards for assets; PS3320 defines and establishes disclosure standards on contingent assets; PS3380 defines and establishes disclosure standards on contractual rights.

iii. PS3430 Restructuring Transactions (effective April 1, 2018)

This standard provides guidance on how to account for and report restructuring transactions by both transferors and recipients of assets and/or liabilities, together with related program or operating responsibilities.

Management is currently assessing the impact of these standards on the ASC's financial statements. At this time, management does not anticipate any material changes.

NOTE 3 CASH AND RESTRICTED CASH

thousands of dollars	**2017**	2016
Cash	**16,815**	10,013
Restricted Cash	**535**	696

Net financial assets include $535,000 of accumulated net administrative penalty revenue ($696,000 in F2016) represented as restricted cash. The change in restricted cash is comprised of:

thousands of dollars	**2017**	2016
Administrative penalties		
Assessed penalties	**1,040**	2,595
Less provision for uncollectible amounts	**(1,005)**	(2,350)
Less repayments	**-**	(284)
Plus recoveries of prior-year assessments	**306**	307
	341	268
Interest income and other	**6**	8
Administrative penalties	**347**	276
Plus education conference	**11**	12
Less eligible restricted cash expenses (investor education)	**(519)**	(489)
Plus funds transferred due to Alberta Court of Appeal decision	**-**	(171)
Restricted cash decrease	**(161)**	(372)
Restricted cash, beginning of year	**696**	1,068
Restricted cash, end of year	**535**	696

Cash and restricted cash consist of demand deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed by AIMCo with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. As at March 31, 2017, the ASC received an annualized return of 0.9 per cent (0.8 per cent in F2016).

NOTE 4 INVESTMENTS

A) SUMMARY

thousands of dollars	2017				2016		
Investments	**Cost**	**Remeasurement Gains (Losses)**	**Fair Value**	**%**	Cost	Fair Value	%
CCITF deposit	**81**	**-**	**81**	**0.3**	80	80	0.4
Fixed-income securities	**21,870**	**(85)**	**21,785**	**74.6**	15,366	15,625	74.5
Canadian equities	**6,642**	**690**	**7,332**	**25.1**	5,081	5,265	25.1
	28,593	**605**	**29,198**	**100.0**	20,527	20,970	100.0

At March 31, 2017, the carrying amounts of the ASC's investments are recognized on a fair-value basis. The ASC's investments are held in pooled investment funds established and managed by AIMCo. Pooled investment funds have a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units.

The fixed-income pool includes a mix of high-quality government and corporate (public and private) fixed-income securities and debt-related derivatives. The fund is actively managed to minimize credit and market risk through the use of derivatives, portfolio duration and sector rotation.

Equity investments include publicly traded Canadian large cap and market index participant equities. The equity pools participate in derivative transactions to simulate index composition and minimize investment risk.

FAIR VALUE HIERARCHY

The table below provides a summary of management's estimate of the relative reliability of data or inputs to measure the fair value of the ASC's investments. The measure of reliability is determined based on the following three levels:

i. **Level One:**

Fair value is based on unadjusted quoted prices in active markets for identical assets or liabilities traded in active markets. Level one primarily includes publicly traded listed equity investments.

ii. **Level Two:**

Fair value is based on valuation methods that make use of inputs, other than quoted prices included within level one, that are observable by market participation either directly through quoted prices for similar but not identical assets or indirectly through observable market information used in valuation models. Level two primarily includes debt securities and derivative contracts not traded on a public exchange and public equities not traded in an active market. For these investments, fair values are either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.

iii. **Level Three:**

Fair value is based on valuation methods where inputs that are based on non-observable market data have a significant impact on the valuation. For these investments trading activity is infrequent and fair values are derived using valuation techniques.

thousands of dollars	Level One	Level Two	Level Three	**Total**
CCITF deposit	-	81	-	**81**
Fixed-income securities	-	21,785	-	**21,785**
Canadian equities	5,581	419	1,332	**7,332**
	5,581	22,285	1,332	**29,198**
	19.1%	76.3%	4.6%	**100.0%**

thousands of dollars	
Reconciliation of Level 3 Investments	
Balance, April 1, 2016	-
Unrealized gains	62
Purchases of Level 3 pooled fund units	1,275
Sales of Level 3 pooled fund units	(5)
Balance, March 31, 2017	**1,332**

B) INVESTMENT RISK MANAGEMENT

The ASC is exposed to a variety of financial risks associated with the underlying securities held in the investment funds. These financial risks include credit risk, foreign currency risk, interest rate risk, price risk and liquidity risk.

i. **Credit Risk**

Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations with the ASC. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies, usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments is directly or indirectly impacted by credit risk to some degree. Most of the ASC's investments in debt securities are with counterparties considered to be investment grade.

The ASC is exposed to credit risk associated with the underlying debt securities held in investment funds managed by AIMCo. The following table summarizes the ASC's investment in debt securities by counterparty credit rating at March 31:

Credit Rating	**2017**	2016
Investment Grade (AAA to BBB-)	**99.9%**	99.7%
Speculative Grade (BB+ or lower)	**0.3%**	-
Unrated	**(0.2%)**	0.3%
	100.0%	100.0%

ii. Foreign Currency Risk

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. While the ASC does not have direct foreign currency exposure, through investments in fixed-income securities and Canadian equities, there are small positions in inter-listed companies that pay dividends in foreign currency.

iii. Interest Rate Risk

The ASC is exposed to interest rate risk associated with the underlying interest-bearing securities held in the investment funds. Interest rate risk relates to the possibility that the fair value of investments will change due to future fluctuations in market interest rates. In general, investment returns from bonds are sensitive to changes in the level of interest rates, with longer-term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1.0 per cent, and all other variables are held constant, the potential loss in fair value to the ASC would be approximately 4.8 per cent of total investments (5.0 per cent in F2016).

The following table summarizes the terms to maturity of interest-bearing securities at March 31, 2017.

	<1 year	**1-5 years**	**Over 5 years**	**Repurchase Agreements***
Interest-bearing securities	14.2%	39.3%	71.0%	(24.5)%

**All repurchase agreements are less than 1 year.*

iv. Price Risk

The ASC is exposed to price risk associated with the underlying equity investments held in investment funds in Canadian equities. Price risk relates to the possibility that equity investments will change in fair value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. If equity market indices declined by 10.0 per cent, and all other variables are held constant, the potential loss in fair value to ASC would be approximately 2.5 per cent of total investments (2.3 per cent in F2016).

v. Liquidity Risk

Liquidity risk is the risk that ASC will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements are met through income generated from investments and by investing in liquid assets that are publicly traded in an active market and easily sold and converted to cash. These sources of cash are used to pay operating expenses, purchase new investments, and settle derivative transactions with counterparties and margin calls on future contracts.

C) INVESTMENT INCOME

The ASC's investment income included $1.0 million from interest-bearing securities ($1.2 million in F2016) and $432,000 from equities ($6,000 in F2016). The ASC's investments had a realized market value gain of 7.1 per cent for the year ended March 31, 2017 (0.1 per cent loss in F2016). This performance compares to a benchmark (composite of FTSE TMX 91 Day T-Bill, FTSE TMX Canada Universe Bond and S&P/TSX indexes) gain of 5.7 per cent in F2017 and a benchmark loss of 0.8 per cent in F2016.

NOTE 5 CAPITAL ASSETS

thousands of dollars	Computer Equipment & Software	Furniture & Equipment	Leaseholds	2017 Total	2016 Total
Estimated useful life	3 years	10 years	Lease duration		
Cost					
Beginning of year	3,209	2,713	6,677	12,599	12,166
Additions	516	38	26	580	434
Disposals	(153)	(6)	–	(159)	(1)
	3,572	2,745	6,703	13,020	12,599
Accumulated amortization					
Beginning of year	2,632	1,481	2,521	6,634	5,379
Amortization expense	431	255	430	1,116	1,255
Disposals	(153)	(6)	–	(159)	-
	2,910	1,730	2,951	7,591	6,634
Net book value	662	1,015	3,752	5,429	5,965

Leaseholds relate to a 15-year lease commenced on December 1, 2010.

NOTE 6 ACCRUED PENSION LIABILITY AND PENSION EXPENSE

The accrued pension liability is comprised of:

thousands of dollars	2017	2016
Retirement Plan	10	38
Supplemental Pension Plan	9,088	8,258
Less accounts payable	(335)	(296)
	8,763	8,000

The following pension expense for the plans is included in the Statement of Operations under salaries and benefits.

thousands of dollars	2017	2016
Public Service Pension Plan	1,286	1,288
Registered Retirement Savings Plan	662	634
Supplemental Pension Plan	1,098	1,143
	3,046	3,065

A) RETIREMENT PLAN

The Retirement Plan is unfunded and the benefits will be paid to August 2017. For the year ended March 31, 2017, the ASC paid $28,000 ($27,000 in F2016).

B) PUBLIC SERVICE PENSION PLAN

The ASC participates in the Public Service Pension Plan. At December 31, 2016, the Public Service Pension Plan reported a surplus of $303.0 million (a deficiency of $133.2 million as at December 31, 2015). The ASC is not responsible for future funding of any plan deficit other than through contribution increases.

C) RRSP

The ASC makes RRSP contributions on behalf of employees who do not participate in the Public Service Pension Plan.

D) SUPPLEMENTAL PENSION PLAN

The ASC has a Supplemental Pension Plan for certain designated executives of the ASC. The provisions of the Plan were established pursuant to a written agreement with each designated executive.

The Supplemental Pension Plan provides pension benefits to the designated executives based on pensionable earnings that are defined by reference to base salary in excess of the limit imposed by the *Income Tax Act* (Canada) on registered pension arrangements.

Pension benefits from the Supplemental Pension Plan are payable on or after attainment of age 55 and are equal to 1.75 per cent of the highest average pensionable earnings (average over five years) for each year of service with the ASC. Members of the Supplemental Pension Plan become vested in the benefits of the plan after two years of service.

The Supplemental Pension Plan is unfunded and the benefits will be paid as they come due from the assets of the ASC.

An actuarial valuation of the Supplemental Pension Plan is undertaken every three years. At March 31, 2015, an independent actuary performed a Supplemental Pension Plan valuation. The next valuation is scheduled for March 31, 2018. The results of the actuarial valuation and management's cost estimates as they apply to the Supplemental Pension Plan are summarized below.

thousands of dollars	**2017**	2016
Supplemental Pension Plan		
Accrued benefit and unfunded obligation	**9,934**	9,505
Unamortized actuarial loss	**(846)**	(1,247)
Accrued benefit liability	**9,088**	8,258

thousands of dollars	**2017**	2016
Accrued benefit obligation		
Accrued benefit obligation at beginning of year	**9,505**	8,951
Service cost	**370**	449
Interest cost	**327**	305
Benefits paid	**(268)**	(200)
Accrued benefit obligation at end of year	**9,934**	9,505

thousands of dollars	**2017**	2016
Pension expense for the Supplemental Pension Plan		
Service cost	**370**	449
Interest cost	**327**	305
Amortization of actuarial losses during the year	**401**	389
	1,098	1,143

The assumptions used in the actuarial valuation of the Supplemental Pension Plan and three-year projections are summarized below. The discount and other economic assumptions were established as management's best estimate in collaboration with the actuary. Demographic assumptions were selected by the actuary based on a best estimate of the future experience of the plans.

Assumptions	**2017**	2016
Discount rate, year-end obligation	**3.25%**	3.25%
Discount rate, annual pension expense	**3.25%**	3.25%
Rate of inflation, year-end obligation	**2.25%**	2.25%
Salary increases, year-end obligation*	**3.00%**	3.00%
Remaining service life, year-end obligation	**5 years**	5 years

**Based on long-term assumptions and management's best estimate.*

NOTE 7 FEES AND OTHER ENFORCEMENT RECEIPTS

thousands of dollars	**2017**	2016
Fees		
Annual financial statements	**16,363**	4,825
Distribution of securities	**16,195**	16,422
Registrations	**14,889**	11,235
SEDI, exempt distributions & registration late filing fees	**748**	907
Orders (applications)	**141**	182
	48,336	33,571

thousands of dollars	**2017**	2016
Other enforcement receipts		
Settlement payments, disgorgements and cost recoveries assessed	**2,813**	1,833
Less provision for uncollectible amounts	**(2,060)**	(1,274)
Plus recoveries of prior-year assessments	**60**	413
	813	972

NOTE 8 CSA NATIONAL SYSTEMS

The CSA National Systems are comprised of the following: System for Electronic Document Analysis and Retrieval (SEDAR), National Registration Database (NRD) and System for Electronic Disclosure by Insiders (SEDI). These systems are administered under a CSA National Systems operations management and governance agreement (the Agreement). The Agreement empowers the ASC, jointly with three other CSA members, to manage the systems and to engage an external service provider to operate the systems. The ASC, as one of the agreement signatories, commits to pay 25 per cent of any shortfall from approved system operating costs that exceeds revenue. Alternatively, any revenue in excess of system operating costs (surplus) is accumulated for future systems operations including possible revenue shortfalls, fee adjustments and system enhancements. The surplus is not divisible; the CSA owns it as a group. As at March 31, 2017 the accumulated operating surplus totaled $151.7 million ($139.9 million at March 31, 2016), primarily made up of $19.9 million cash held by the Ontario Securities Commission earning interest at 1.85 per cent below the prime rate and $115 million marketable securities held in one to two year term deposits earning 1.10 per cent to 1.70 per cent.

NOTE 9 COMMITMENTS AND CONTINGENT LIABILITIES

Details of commitments to organizations outside the ASC are set out below.

A) COMMITMENTS

Premises Leases and Equipment Rental

Commitments arising from contractual obligations are associated primarily with the lease of premises to November 30, 2025 and rental of office equipment to 2021 totaling $31.4 million ($35.1 million in F2016). These commitments become expenses of the ASC when the terms of the contracts are met.

thousands of dollars	
2017-18	3,394
2018-19	3,420
2019-20	3,447
2020-21	3,568
2021-22	3,721
Thereafter	13,855
Total	31,405

Canadian Securities Administrators

The CSA Secretariat assists in the development and harmonization of rules, regulations and policies across Canada. The ASC shares, based on an agreed-upon cost-sharing formula, costs incurred for the maintenance of the CSA Secretariat and any third-party costs incurred in the development of harmonized rules, regulations and policies.

B) CONTINGENT LIABILITIES

ASC panel or court decisions may be appealed. The outcomes of these matters are not determinable at this time, therefore the impact to operating deficit cannot be determined. However, management does not expect the impact to be material.

NOTE 10 BUDGET

The ASC's F2017 budget was originally approved by the Commission on January 13, 2016, and subsequently amended and approved on April 13, 2016.

In May 2016, the ASC published ASC Rule 13-501 *Fees* (Fee Rule). The Fee Rule was subject to obtaining the necessary Ministerial approval. The ASC received Ministerial approval in respect of the Fee Rule on October 17, 2016 and the Fee Rule became effective on December 1, 2016. The ASC's F2017 budgeted revenue did not reflect changes resulting from the Fee Rule.

NOTE 11 RELATED PARTY TRANSACTIONS

The ASC is related through common ownership to all provincial government ministries, agencies, boards, commissions and Crown corporations. The ASC conducted all transactions with these entities as though they were unrelated parties and recorded transaction costs of $55,000 in administration expenses primarily for insurance, transcript and postage services ($72,000 in F2016).

NOTE 12 COMPARATIVE FIGURES

Certain F2016 figures have been reclassified to conform to the F2017 presentation.

Schedule of Salaries & Benefits – Schedule A

thousands of dollars				2017	2016
	Base salary[1]	**Cash benefits**[2]	**Non-cash benefits**[3]	**Total**	Total
Chair and Chief Executive Officer (CEO), Securities Commission[4,5]	**367**	-	**14**	**381**	426
Executive Director	**379**	**64**	**208**	**651**	659
Vice-Chair, Securities Commission[4,6]	**388**	**3**	**201**	**592**	636
Vice-Chair, Securities Commission[4,7,8]	**394**	**62**	**48**	**504**	526
Independent Members[9]	**518**	-	-	**518**	491

[1] *Base salary includes regular base pay or Independent Members' compensation.*

[2] *Cash benefits may include variable pay, transit allowance, memberships and automobile allowance.*

[3] *Employer's share of all employee benefits includes: health, insurance, pension, professional memberships, RRSP and current and prior service cost for the unfunded Supplemental Pension Plan for designated executives as described in note 6(D) of the financial statements and summarized in the accompanying narrative.*

[4] *The Chair and Vice-Chairs are full-time Commission Members.*

[5] *The Chair and CEO's term commenced on July 4, 2016. The former Chair and CEO retired on September 30, 2015 and had salaries & benefits of $426,000 in F2016.*

[6] *This Vice-Chair retired on March 31, 2017. The base salary includes vacation pay.*

[7] *This Vice-Chair assumed the role of Interim Chair and CEO from October 1, 2015 to July 3, 2016.*

[8] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This RRSP benefit is reported on Schedule A, Non-Cash Benefits.*

[9] *The Independent Members' compensation includes total fees paid for governance responsibilities of $308,000 ($349,000 in F2016) and hearing and application panel participation of $210,000 ($142,000 in F2016).*

Independent Member fees include:

	2017
Annual retainer	**$ 10,000**
Committee memberships (other than Audit Committee)	**$ 2,500**
Committee memberships (Audit Committee)	**$ 4,000**
Committee chairing (other than Audit Committee)	**$ 5,000**
Committee chairing (Audit Committee)	**$ 8,000**
Lead Independent Member	**$ 5,000**
Meeting attendance fee	**$1,000 per day for an ASC meeting; $750 for a Committee meeting**
Hearing fees	**$1,500 per hearing day; and $200 per hour of related preparation, review and decision writing**
Hearing fees (Panel Chair)	**$2,000 per hearing day; and $250 per hour of related preparation, review and decision writing**

Supplemental Retirement Benefits

Under the terms of the Supplemental Pension Plan, executive officers may receive supplemental retirement payments. Retirement arrangement costs as detailed below are not cash payments in the period but are the period expense for rights to future compensation. Costs shown reflect the total estimated cost to provide annual pension income over an actuarially determined post-employment period. The Supplemental Pension Plan provides future pension benefits to participants based on years of service and earnings. The cost of these benefits is actuarially determined using the projected benefit method pro-rated on services, a market interest rate and management's best estimate of expected costs and the period of benefit coverage. Net actuarial gains and losses of the benefit obligations are amortized over the average remaining service life of the employee group. Current service cost is the present value of the benefits earned in the fiscal year. Prior service and other costs include amortization of past service costs on plan initiation, amortization of actuarial gains and losses, and interest accruing on the actuarial liability.

ANNUAL EXPENSE

thousands of dollars			**2017**	2016
	Current service costs	**Prior service and other costs**	**Total**	Total
Chair and CEO, Securities Commission[1]	–	–	–	82
Executive Director	**80**	**96**	**176**	184
Vice-Chair, Securities Commission[2]	**79**	**94**	**173**	172
Vice-Chair, Securities Commission[3,4]	–	–	–	–

The accrued obligation for each executive under the Supplemental Pension Plan is outlined in the following table.

ACCRUED OBLIGATIONS

thousands of dollars	Accrued obligation April 1, 2016	Changes in accrued obligation	**Accrued obligation March 31, 2017**
Chair and CEO, Securities Commission[1]	–	–	**–**
Executive Director	1,565	133	**1,698**
Vice-Chair, Securities Commission[2]	1,033	116	**1,149**
Vice-Chair, Securities Commission[3,4]	–	–	–

[1] *The Chair and CEO does not participate in the Supplemental Pension Plan. The former Chair and CEO retired on September 30, 2015. He had an annual expense of $82,000 in F2016 and an accrued obligation of $1,086,000 as at March 31, 2016.*

[2] *This Vice-Chair retired on March 31, 2017.*

[3] *This Vice-Chair does not participate in the Supplemental Pension Plan, but participates in the RRSP program. This benefit is reported on Schedule A, Non-Cash Benefits.*

[4] *This Vice-Chair assumed the role of Interim Chair and CEO from October 1, 2015 to July 3, 2016.*

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N.A. PROPERTIES (1994) LTD.

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR
GENERAL
Alberta

To the Shareholder of N.A. Properties (1994) Ltd.

Report on the Financial Statements

I have audited the accompanying financial statements of N.A. Properties (1994) Ltd., which comprise the statement of financial position as at March 31, 2017, the statements of operations, change in net financial assets and cash flow for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian public sector accounting standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position to the Shareholder of N.A. Properties (1994) Ltd. as at March 31, 2017, and the results of its operations, its remeasurement gains and losses, its changes in net financial assets, and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 7, 2017

Edmonton, Alberta

Statement of Financial Position

As at March 31

	($ thousands) 2017	($ thousands) 2016
Financial Assets		
Cash and cash equivalents (Note 4)	$ 3,108	$ 3,082
Note receivable (Note 5)	132	109
	3,240	3,191
Liabilities		
Obligations under indemnities and commitments (Note 6)	83	102
Net Financial Assets and Net Assets		
Net assets (Note 7)	$ 3,157	$ 3,089

The accompanying notes are part of these financial statements.

On Behalf of the Board:

[Original signed by]

Lowell Epp
Sole Director

Statement of Change in Net Financial Assets

Year Ended March 31

	($ thousands) 2017	($ thousands) 2016
Net operating surplus	$ 68	$ 61
Increase in Net Financial Assets	68	61
Net Financial Assets, Beginning of year	3,089	3,028
Net Financial Assets, End of Year	$ 3,157	$ 3,089

The accompanying notes are part of these financial statements.

Statement of Operations and Surplus

Year Ended March 31

	($ thousands)	
	2017	**2016**
Revenues		
Interest and other	$ 49	$ 43
Operating income before provision	49	43
Recovery of obligations under indemnities and commitments (Note 6)	19	18
Annual surplus	68	61
Net assets, beginning of year	3,089	3,028
Net assets, end of year	$ 3,157	$ 3,089

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(thousands of dollars)

NOTE 1 AUTHORITY

N.A. Properties (1994) Ltd. (the "Company") was continued on March 31, 1994 as an amalgamated corporation under the *Business Corporation Act, Statutes of Alberta 2000*, Chapter B-9, as amended. The Province of Alberta owns all issued shares of the Company and accordingly the Company is exempt from income taxes under the Income Tax Act.

NOTE 2 NATURE OF OPERATIONS

The Company's mandate is to dispose of its remaining assets. The Province of Alberta has indemnified the Company for all net losses, expenses or liabilities existing or subsequently incurred by the Company. There were no recoveries from the Province of Alberta in satisfaction of this indemnity in the past three years.

The Company also manages indemnities described in Note 6.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared in accordance with Canadian Public Sector Accounting Standards. Effective April 1, 2012, the Company adopted PS 3450 Financial Instruments. This section deals with how to account for and report financial instruments. The accounting policies of significance to the Company are as follows:

a) FINANCIAL STATEMENT PRESENTATION

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Company's financial assets and liabilities.

A net financial assets balance indicates the extent of the Company's government transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

The effect of this change results in changing the presentation of the Statement of Financial Position and adding the Statement of Change in Net Financial Assets.

Financial Assets are the Company's financial claims on external organizations as well as cash and cash equivalents.

A cash flow statement is not provided due to the limited nature of the Company's operations. All information about the Company's cash flows are contained within the financial statements.

b) VALUATION OF FINANCIAL ASSETS AND LIABILITIES

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. The fair value of cash is estimated to approximate its carrying value because of the short-term nature of this instrument.

NOTE 3 SIGNIFICANT ACCOUNTING POLICIES ... CONTINUED

c) FINANCIAL INSTRUMENTS

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

NOTE 4 CASH AND CASH EQUIVALENTS

Cash and cash equivalents is comprised of deposits in the bank. At March 31, 2017 the deposits in the bank had a time weighted return of 0.9% per annum (2016: 0.8% per annum).

NOTE 5 NOTE RECEIVABLE

The non-interest bearing note receivable in the amount of $933 was issued in November 1987 and matures in the year 2027. The carrying value of the note receivable as at March 31, 2017 is $132 (2016: $109). The note receivable is discounted by 20% based on the yield in effect at the time of issuance and adjusting the rate for a risk premium.

NOTE 6 INDEMNITIES AND COMMITMENTS

In the past, the Company provided indemnities of principal and interest on mortgages sold to a Canadian chartered bank. The principal and interest on these mortgages totaled $83 at March 31, 2017 (2016: $102). The Company's indemnities expire in part in 2017 and in full in 2018. The Company estimates its liability under the indemnities annually, based on its assessment of the mortgages.

Changes in the Company's obligations under indemnities and commitments are as follows.

	($ thousands)	
	2017	**2016**
Beginning balance	$ 102	$ 120
Recovery of obligations under indemnities and commitments	(19)	(18)
Ending balance	$ 83	$ 102

NOTE 7 NET ASSETS

Net assets consists of the following:

	($ thousands)	
	2017	**2016**
Share capital	$ 5,769	$ 5,769
Accumulated deficit	(2,612)	(2,680)
Net assets	$ 3,157	$ 3,089

Share capital consists of the following:

		($ thousands) 2017	($ thousands) 2016
Issued			
1	Class "A" share	$ 5,768	$ 5,768
1,000	Class "B" shares	1	1
		$ 5,769	$ 5,769

Authorized

Unlimited number of Class "A" voting shares
Unlimited number of Class "B" voting shares
Unlimited number of Class "C" non-voting shares
Unlimited number of Class "D" non-voting shares
Unlimited number of Class "E" voting shares
Unlimited number of Class "F" non-voting shares

NOTE 8 RELATED PARTY TRANSACTIONS

Other than interest earned from the Consolidated Cash Investment Trust Fund, there were no other related party transactions in the year ended March 31, 2017 nor for the prior year ended March 31, 2016.

NOTE 9 FEES AND SALARIES

There were no director's fees or salaries paid during the year. The Company had no employees in 2017 nor in the prior year 2016.

NOTE 10 BUDGET

The Company's annual budget appears in the 2016-17 Government Estimates. The budget projected a net excess of revenue over expenses for the year of $120. Since the Company has liquidated almost all of its assets, a detailed budget was not prepared.

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GAINERS INC.

Consolidated Financial Statements

September 30, 2016

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Independent Auditor's Report

AUDITOR
GENERAL
Alberta

To the Shareholder of Gainers Inc.

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of Gainers Inc., which comprise the consolidated statement of financial position as at September 30, 2016, and the consolidated statements of operations, change in net debt and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with Canadian public sector accounting standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Gainers Inc. as at September 30, 2016, and the results of its operations, its remeasurement gains and losses, its changes in net debt and its cash flows for the year then ended in accordance with Canadian public sector accounting standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

January 13, 2017

Edmonton, Alberta

Consolidated Statement of Financial Position

As at September 30, 2016

	($ thousands) 2016	($ thousands) 2015
Financial Assets		
Cash	$ 1	$ 1
Investment in and amount due from former affiliate (Note 3)	-	-
	$ 1	$ 1
Liabilities		
Accounts payable and accrued liabilities	$ 11	$ 7
Principal and interest on prior years income taxes (Note 4)	11,334	11,334
Long-term debt (Note 5)	193,224	193,193
	204,569	204,534
Net Debt and Net Liabilities		
Accumulated Liability (Note 7)	(204,568)	(204,533)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Change in Net Debt

Year ended September 30, 2016

	($ thousands) 2016	($ thousands) 2015
Net operating deficit	$ (35)	$ (7)
Increase in Net Debt	(35)	(7)
Net Debt, Beginning of year	(204,533)	(204,526)
Net Debt, End of Year	$ (204,568)	$ (204,533)

The accompanying notes are part of these financial statements.

Approved by the Board of Directors

[Original signed by]

Dan Harrington, Director

Consolidated Statement of Operations

Year ended September 30, 2016

	2016 Budget	2016 Actual	2015 Actual
	($ thousands)		
Expenses			
Legal expenses	$ -	$ 29	$ 3
General and administrative	-	6	4
Annual deficit	-	(35)	(7)
Accumulated deficit, beginning of year	-	(204,533)	(204,526)
Accumulated deficit, end of year	$ -	$ (204,568)	$ (204,533)

The accompanying notes are part of these consolidated financial statements.

Consolidated Statement of Cash Flows

Year ended September 30, 2016

	2016	2015
	($ thousands)	
Cash provided by (used in)		
Operating activities		
Annual deficit	$ (35)	$ (7)
(Decrease) increase in payables	4	3
	(31)	(4)
Financing activities		
Proceeds from long-term debt	31	4
Change in cash	-	-
Cash, beginning of year	1	1
Cash, end of year	$ 1	$ 1

The accompanying notes are part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

September 30, 2016

(in thousands of dollars, except per share amounts)

NOTE 1 AUTHORITY

Gainers Inc. is a commercial Crown-controlled corporation and operates under the Business Corporations Act, Chapter B-9, Revised Statutes of Alberta 2000. The Corporation is controlled by the Government of Alberta and is exempt from income and other taxes.

Through September 25, 1993, the company operated on a going-concern basis, which contemplated the realization of assets and discharge of liabilities in the normal course of business. Events since that date have resulted in the discontinuance of all ongoing business. The company has disposed of its non-monetary assets, with the exception of its investment in Pocklington Corp. Inc. described below. Management does not expect any recovery of that investment.

Any repayment of the long-term debt by the company is expected by management to be immaterial.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

These financial statements have been prepared by management in accordance with Canadian Public Sector Accounting Standards.

a) REPORTING ENTITY AND METHOD OF CONSOLIDATION

The consolidated financial statements reflect the assets, liabilities, revenues, and expenses of the reporting entity, which is composed of all organizations, which are controlled by Gainers. These organizations are Gainers Properties Inc. (GPI) and MPF Note Inc., collectively the "company".

b) FINANCIAL STATEMENT PRESENTATION

The net debt model (with reclassification of comparatives) has been adopted for the presentation of financial statements. Net debt or net financial assets is measured as the difference between the Company's financial assets and liabilities.

A net financial assets balance indicates the extent of the Company's transfers and operating revenues to net assets resulting from settlement of its financial assets and liabilities.

The effect of this change results in changing the presentation of the Consolidated Statement of Financial Position and adding the Consolidated Statement of Change in Net Debt.

Financial Assets are the Company's Financial claims on external organizations as well as cash and cash equivalents.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

c) BASIS OF FINANCIAL REPORTING

Revenues

All revenues are reported on the accrual basis of accounting. Cash received for which goods or services have not been provided by year end is recorded as deferred revenue.

Expenses

Expenses are reported on an accrual basis. The cost of all goods consumed and services received during the year is expensed. Interest expense includes debt servicing costs such as amortization of discounts and premiums, foreign exchange gains and losses, and issuance costs.

Financial Assets

Financial assets are assets that could be used to discharge existing liabilities or finance future operations and are not for consumption in the normal course of operations. Financial assets of Gainers are limited to financial claims, such as advances to and receivables from other organizations.

Liabilities

Liabilities are recorded to the extent that they represent present obligations as a result of events and transactions occurring prior to the end of the fiscal year. The settlement of liabilities will result in sacrifice of economic benefits in the future.

Liabilities include the unrecognized portions of government transfers received and restricted donations and other contributions.

Financial Instruments

As the Company does not have any transactions involving financial instruments that are classified in the fair value category and has no foreign currency transactions, there are no remeasurement gains and losses and therefore a statement of remeasurement gains and losses has not been presented.

Valuation of Financial Assets and Liabilities

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The fair values of cash, accounts payable and accrued liabilities are estimated to approximate their carrying values because of the short-term nature of these instruments. Fair values of long term debt are not reported due to there being no organized financial market for the instruments and it is not practicable within constraints of timeliness or cost to estimate the fair value with sufficient reliability.

NOTE 3 INVESTMENT IN AND AMOUNTS DUE FROM FORMER AFFILIATE

The investment, which has been written down to $nil value, comprises 77,500 Class A preferred shares of Pocklington Corp. Inc. with a par value of, and which are redeemable at, US $100 per share and which carry annual non-cumulative dividends of US $11 per share. In November 1989, a demand for redemption of the shares was made by Gainers Inc. and an action was commenced against Mr. Pocklington arising from this investment, seeking by way of damages the monies invested together with interest thereon. Mr. Pocklington has counterclaimed seeking statutory indemnification as a director for his actions. Management believes that this counterclaim is without merit. Management does not expect any recovery from this claim.

Advances to the former affiliate, Pocklington Financial Corporation (formerly Pocklington Holdings Inc.), which are recorded at $nil value, are non-interest bearing and have no specific terms of repayment. In January 1990, Gainers Inc. made demand on and brought an action against Pocklington Financial Corporation to recover the advances. In December 1995, a judgment was rendered and collected in favour of Gainers Inc. in the amount of $770. This amount has been recovered by the company from Pocklington Financial Corporation. This amount was subject to the secured claim of the Province as described in Note 5 and was subsequently remitted to the Province of Alberta ("Alberta"). Gainers Inc. appealed this decision to the Alberta Court of Appeal and was successful on all issues. The Court of Appeal ordered that a new calculation of the amount to be repaid be made by the Court of Queen's Bench. Gainers Inc. has not taken further steps as Pocklington Financial Corporation is bankrupt.

On August 8, 1989, Gainers Inc. acquired the shares of 350151 Alberta Ltd. (350151) for $100 cash. On October 4, 1989, Gainers Inc., at the direction of the former owner, sold the shares of 350151 to Pocklington Holdings Inc. for one hundred dollars cash. Alberta filed a claim to have the sale reversed. The accounts of 350151 are not included in these financial statements. In December 1995, a judgment as to the ownership of the shares was rendered in favour of Pocklington Financial Corporation. Alberta appealed this decision, and on November 21, 2000 the Alberta Court of Appeal reversed the 1995 judgment. The Court of Appeal has held that the purported sale of the shares of 350151 to Pocklington Holdings Inc. on October 4, 1989 was a breach of the Master Agreement (Note 5) and awarded $4,700 in damages plus trial and appeal costs of Alberta against Mr. Pocklington. This judgment was subsequently paid from realizing on collateral security held for the debt.

NOTE 4 INCOME TAXES

The prior years' liability for income taxes plus accrued interest is an unsecured debt. The long-term debt owed to Alberta is a secured debt and thus ranks in priority. The company will not be able to settle this liability for income taxes and interest as the amount owing to Alberta exceeds the amount which is reasonably expected to be recovered from the remaining assets of the company.

The company has capital and non-capital income tax losses available for carry forward to reduce taxable income of future years. The amount of capital losses available for carry forward is $54,491. The amount of non-capital losses available for carry forward is $184. These non-capital losses expire between 2016 and 2036.

NOTE 5 LONG-TERM DEBT

	($ thousands)	
	2016	2015
Province of Alberta		
Term loan	$ 6,000	$ 6,000
Assignment of prior operating loans from previous banker		
Term bank loan (US $8,749)	11,567	11,567
Operating loan	20,979	20,979
Advances under guarantee for principal interest payments	31,947	31,947
Promissory note	42,846	42,846
Advance to facilitate sale	13,000	13,000
Advances under guarantee and indemnity for operating line	18,469	18,469
Default costs and guarantee fees	13,925	13,894
Accrued interest	34,491	34,491
	$ 193,224	$ 193,193

The fair value of the long-term debt is dependent on outcomes from claims filed by or against Gainers Inc. The fair value as at September 30, 2016 is estimated to be $nil.

PROVINCE OF ALBERTA

On September 25, 1987, Gainers Inc. and GPI entered into the Master Agreement with Alberta, which provided for a term loan facility and a loan guarantee. Pursuant to the Master Agreement, Gainers Inc. and GPI granted securities to 369413 Alberta Ltd. (Nominee) which holds the securities and loans, as later described in this Note, in trust for Alberta. A number of events of default, which still continue, occurred during 1989, resulting in the long-term debt and liability to Alberta becoming due and payable. Alberta acted on its security and, on October 6, 1989, took control of Gainers Inc.'s issued and outstanding shares, which previously were controlled by Mr. Pocklington.

On October 6, 1989, operating loans of $20,979, and a term loan of US $8,749 were purchased, transferred and assigned to the Nominee. In addition, Alberta made payments from October 6, 1989 under the guarantee to cover principal and interest payments due, until the purchase in December 1993 of the balance due under the promissory note made by GPI to Yasuda Mutual Life Assurance Company.

INTEREST

The interest on the loans and other indebtedness owing to Alberta has not been paid in accordance with the terms of the indebtedness. Effective February 5, 1994, Alberta declared all indebtedness owing by the company to Alberta to be non-interest bearing from the later of February 5, 1994 and the date the indebtedness to the Province of Alberta was incurred.

SECURITY

Collateral security for the indebtedness to Alberta includes a general assignment of book debts, general security agreements over all real and personal property of the company, a pledge of inventory, and fixed and floating charge debentures amounting to $70,000 covering all of the assets of the company. The company continues to be in default and in breach of certain covenants of this indebtedness.

MASTER AGREEMENT

The Master Agreement provided for Alberta to advance a term loan to GPI in the aggregate amount of $12,000. As at September 30, 1989, $6,000 of the term loan had been advanced. An interest payment due on October 1, 1989 was not made and Alberta, acting on its security, seized control of the company. Since default has occurred under the Master Agreement, the entire amount of the monies advanced for the term loan is due and owing by GPI to Alberta. The term loan which has been advanced, and interest thereon, and the performance and observance of the other covenants of GPI under the Master Agreement, including the obligations of GPI to the Nominee in the principal sum of $67,000 dated September 25, 1987 and constituting a fixed mortgage and charge over all of the real property, equipment and chattels of GPI and a floating charge over all of the undertaking and other property and assets of GPI, and by a pledge by GPI of preferred shares held by GPI in Gainers Inc.

NOTE 6 CONTINGENT LIABILITIES

a) The company and Alberta have filed claims against Mr. Pocklington and companies controlled by him for recovery of certain loans, payments and other transactions prior to October 6, 1989. The claim aggregates approximately $38,000 plus interest. Management does not expect any recovery of this claim.

b) Under the terms of the Master Agreement, the company and Mr. Pocklington are liable for all losses, expenses, costs and claims incurred by Alberta as a consequence of a default by the company, as defined in Note 1, or by Mr. Pocklington. As a result, since the date of default the company has incurred approximately $14,241 (net of repayments) in the consolidated financial statements for these costs and expenses. It is expected that further costs and expenses will be incurred in the future as a result of continuing default. Management does not expect any recovery of this claim.

c) Alberta has brought a claim against Mr. Pocklington for damages arising out of breaches by him of the Master Agreement or alternatively, negligent misrepresentations made by him in certificates sworn by him in 1988 and 1989, which caused the Crown to make advances under the Term Loan.

   Alberta obtained summary judgment which has been upheld by the Alberta Court of Appeal in the amount of $2,000 in respect of one of the certificates made by Mr. Pocklington in 1988. The Court of Appeal sent the issue of the amount of interest on the judgment to the Trial Court to calculate. The Trial Court granted summary judgment to Alberta for $10,000 for such interest. The judgments were renewed by Order granted November 25, 2009, in the amount of $12,747. Mr. Pocklington has filed for bankruptcy in California and the Province has registered its claim in California.

NOTE 7 NET LIABILITIES

Net liabilities consists of the following:

	($ thousands) 2016	($ thousands) 2015
Share capital	$ 1	$ 1
Accumulated deficit	(204,569)	(204,534)
Net liabilities	$ (204,568)	$ (204,533)

Share capital consists of the following:

AUTHORIZED

Unlimited number of Class A common shares.

Unlimited number of Class B preferred shares, redeemable/retractable at $1 per share with non-cumulative annual dividends at a rate not exceeding 16% of the redemption value.

12,000,000 Class C preferred shares redeemable at $1 per share with cumulative annual dividend compounded semi-annually at 9.6% of the redemption price.

ISSUED

	($ thousands) 2016	($ thousands) 2015
101 Class A common shares	$ 1	$ 1
6,000,000 Class C preferred shares	6,000	6,000
	6,001	6,001
Less: 6,000,000 Class C preferred shares held by GPI	(6,000)	(6,000)
	$ 1	$ 1

NOTE 8 APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved by the Board of Gainers Inc.

Government Business Enterprises

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Financial Statements
Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the Members of the Alberta Gaming and Liquor Commission

Report on the Financial Statements
I have audited the accompanying financial statements of the Alberta Gaming and Liquor Commission, which comprise the statement of financial position as at March 31, 2017, and the statements of net income, comprehensive income, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion
In my opinion, the financial statements present fairly, in all material respects, the financial position of the Alberta Gaming and Liquor Commission as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

May 24, 2017

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

As at March 31
(in thousands of dollars)

	Note	2017	2016
ASSETS			
Current Assets			
Cash and cash equivalents	4	$ 147,958	$ 206,354
Accounts receivable		18,789	29,532
Inventory and prepaid expenses	5	11,858	11,162
		178,605	247,048
Non-Current Assets			
Property and equipment, net	6	247,325	254,534
Intangible assets, net	7	28,106	29,215
Investment properties, net	8	88,508	42,398
Investment in Western Canada Lottery Corporation	2g & 15	36,101	29,293
		400,040	355,440
		$ 578,645	$ 602,488
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities		$ 160,142	$ 190,816
Due to Alberta Lottery Fund	9	59,045	71,316
		219,187	262,132
Non-Current Liabilities			
Due to General Revenue Fund	10	322,509	305,254
Provision for loss on leased properties	16 & 17	145	144
Net defined benefit pension liability	2f & 11	62,364	58,906
		385,018	364,304
Accumulated Other Comprehensive Income (Loss)	11	(25,560)	(23,948)
		$ 578,645	$ 602,488

The accompanying notes are an integral part of these financial statements.

Approved by:

BOARD

[Original signed by]

Thorna Lawrence, CPA, CA
Audit Committee Chair

MANAGEMENT

[Original signed by]

Alain Maisonneuve
Acting President and Chief Executive Officer

STATEMENT OF NET INCOME

For the year ended March 31
(in thousands of dollars)

	Note	2017	2016
Liquor revenue		$ 2,545,119	$ 2,634,256
Liquor cost of sales		(1,667,977)	(1,762,032)
	12	877,142	872,224
Gaming revenue	12	1,731,841	1,849,213
		2,608,983	2,721,437
Commissions and federal payments	12	(430,201)	(458,843)
Operating expenses	13	(224,598)	(224,298)
Profit from Operations		1,954,184	2,038,296
Other revenue	14	15,164	18,052
Income from Western Canada Lottery Corporation	15	315,511	352,192
Net Income	21 & 12	$ 2,284,859	$ 2,408,540

The accompanying notes are an integral part of these financial statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended March 31
(in thousands of dollars)

	Note	2017	2016
Net income	21 & 12	$ 2,284,859	$ 2,408,540
Other Comprehensive Income (Loss)			
Net actuarial gain (loss)	11	(1,612)	11,419
Total Comprehensive Income		$ 2,283,247	$ 2,419,959

The accompanying notes are an integral part of these financial statements.

STATEMENT OF CASH FLOWS

For the year ended March 31
(in thousands of dollars)

	2017	2016
Operating Activities		
Net income	$ 2,284,859	$ 2,408,540
Increase (decrease) in provision for loss on leased properties	1	(81)
Amortization	61,312	59,556
Loss on disposal of property, equipment and intangible assets	2,428	436
Write-down of intangible assets	871	-
Change in defined benefit pension liability	3,458	(9,307)
Net changes in non-cash working capital	(22,239)	12,505
	2,330,690	2,471,649
Transfers to Alberta Lottery Fund	(1,441,875)	(1,589,516)
Transfers to General Revenue Fund	(838,000)	(830,000)
Cash Provided by Operating Activities	50,815	52,133
Investing Activities		
Purchase of property and equipment	(48,443)	(31,991)
Purchase of intangible assets	(9,008)	(8,348)
Additions to investment properties	(46,917)	(8,975)
Proceeds on disposal of property, equipment and intangible assets	1,965	3,136
Net change in investment in Western Canada Lottery Corporation	(6,808)	5,911
Cash Used in Investing Activities	(109,211)	(40,267)
Net Increase (Decrease) in Cash During the Year	(58,396)	11,866
Cash, beginning of year	206,354	194,488
Cash, end of year	$ 147,958	$ 206,354
Supplemental Cash Flow information:		
Interest received	$ 1,717	$ 1,518

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended March 31
(in thousands of dollars)

1. Nature of Operations

The Alberta Gaming and Liquor Commission (AGLC) operates under the authority of the *Gaming and Liquor Act*, Chapter G-1, Revised Statutes of Alberta 2000. Under the *Gaming and Liquor Act*, the AGLC was established as a provincial Crown corporation governed by the Board appointed by the Lieutenant Governor in Council. The registered office is located at 50 Corriveau Avenue, St. Albert, Alberta.

The AGLC is an agency of the Government of Alberta which conducts and manages provincial lotteries, carries out functions respecting gaming under the *Criminal Code* (Canada), and controls, in accordance with legislation, the manufacture, import, sale, purchase, possession, storage, transportation, use and consumption of liquor for the Government of Alberta. As an agent of the Government of Alberta, the AGLC is not subject to federal or provincial corporate income taxes.

The AGLC also administers the Alberta Lottery Fund which was established under the *Interprovincial Lottery Act*, RSA 1980 cl-8.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and interpretations of the International Financial Reporting Standards Interpretation Committee (IFRIC).

These financial statements have been prepared on a historical cost basis and are presented in Canadian dollars. All values are rounded to the nearest thousand dollars, except where otherwise indicated.

The financial statements for the year ended March 31, 2017 were authorized for issue by the Board on May 24, 2017.

b. Financial Instruments

Financial instruments are classified based on their characteristics and the intention of management upon their acquisition. They are recognized in the Statement of Financial Position when the AGLC becomes a party to the contractual terms of the instrument, which represents its trade date.

All financial instruments are initially recognized at fair value plus directly attributable transaction costs, and their subsequent measurement is dependent on their classification as outlined below.

Cash and cash equivalents	Loans and receivables
Accounts receivable	Loans and receivables
Accounts payable and accrued liabilities	Other financial liabilities
Due to Alberta Lottery Fund	Other financial liabilities

Due to General Revenue Fund	Other financial liabilities

Loans and receivables
Subsequent to initial recognition, loans and receivables continue to be measured at cost. Due to the short-term nature of these assets, the estimated fair value is considered to be equal to their carrying value.

Financial assets are derecognized when the right to receive cash flows from the asset has expired. Any difference in the carrying amounts of the asset is recognized in the Statement of Net Income.

Other financial liabilities
Subsequent to initial recognition, other financial liabilities continue to be measured at cost. Due to the short-term nature of these liabilities, the estimated fair value is considered to be equal to their carrying value.

Financial liabilities are derecognized when the obligation under the liability is discharged, cancelled or it expires. Any difference in the carrying amounts of the financial liability is recognized in the Statement of Net Income.

Impairment
Financial assets and liabilities are assessed for indicators of impairment on an annual basis. If there is objective evidence that an impairment exists, the loss is recognized in the Statement of Net Income. An impairment loss is measured as the difference between the carrying value and the current fair value.

c. Inventory

Gaming parts and supplies are valued at weighted average cost which is not in excess of net realizable value.

Liquor inventory is held on behalf of liquor suppliers and/or agents. As such, its value, as well as related duties and taxes, are not recorded in these financial statements.

d. Property, Equipment and Intangible Assets

Property, equipment and intangible assets are reported at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful life of assets, with no amortization calculated on assets under construction or development. Where an asset is comprised of major components with different useful lives, the components are accounted for and amortized separately. Amortization begins when the asset is put into use. Land is not amortized.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefit will flow to the AGLC and the cost can be measured reliably.

The estimated useful life is reviewed on an annual basis for any change in circumstances. The effects of any changes in estimated useful life are accounted for on a prospective basis.

Gains and losses on the disposal of assets are recorded in the year of disposal.

e. Investment Properties

Investment properties are comprised of land, building or a combination thereof, that are held by the owner to earn rental income. They include the distribution and storage facility located in St. Albert (50 Corriveau Avenue), currently leased to Connect Logistics Services Inc., as well as the liquor distribution centre under construction in St. Albert (2 Boudreau Road).

Investment properties are initially recognized at cost, and are subsequently carried at cost less accumulated amortization. Amortization is calculated on a straight line basis over the estimated useful life of assets, with no amortization calculated on assets under construction or development. Where an asset is comprised of major components with different useful lives, the components are accounted for and amortized separately. Amortization begins when the asset is put into use. Land is not amortized.

f. Defined Benefit Pension Plan

The AGLC participates in multi-employer defined benefit pension plans sponsored by the Province of Alberta: the Public Services Pension Plan (PSPP), the Management Employees Pension Plan (MEPP), and the Supplementary Retirement Plan for Public Service Managers (SRP). The cost of providing benefits under the defined benefit plans is determined separately for each plan by independent actuaries based on several assumptions. An expense and associated liability for benefits earned are recognized in the period that employee service has been rendered. Under defined benefit pension plan accounting, the AGLC must recognize its proportionate share, determined on an actuarial basis, of plan assets, obligations, re-measurement amounts and service cost.

For defined benefit pension plans, current benefit cost represents the actuarial present value of the benefits earned in the current period. Such cost is actuarially determined using the accrued benefit method prorated on service, a market interest rate, management's best estimate of projected costs, and the expected years of service until retirement. The liability is the present value of the defined benefit obligation, which is determined by discounting the estimated future cash flows using a discount rate based on market yields of high quality corporate bonds having terms to maturity that approximate the duration of the related benefit liability. Interest expense represents the amount required in each year to form the liability over the projected period to its future value. Re-measurement changes in benefit liabilities, composed of actuarial changes in assumptions and experience gains and losses, are recognized in other comprehensive income.

The Net Defined Benefit Pension Liability, including the underlying assumptions for future salary increases, inflation rates and discount rates, is reviewed annually.

g. Investment in an Associate – Western Canada Lottery Corporation

The Western Canada Lottery Corporation (WCLC) was incorporated without share capital under Part II of the *Canada Corporations Act* on April 16, 1974. It is a non-profit organization authorized to manage, conduct and operate lottery and gaming-related activities for its members - the Governments of Alberta, Saskatchewan, and Manitoba. The Yukon Territory, the Northwest Territories and Nunavut participate as associate members.

The AGLC has significant influence, but no control or joint control, over the financial and operating policy decisions of the WCLC. As a result, the AGLC's investment in WCLC (considered an associate) is accounted for using the equity method of consolidation.

Under the equity method, the investment in WCLC is reported in the Statement of Financial Position at cost, including post-acquisition changes in the AGLC's share of net assets of WCLC.

The Statement of Net Income reflects the AGLC's share of the results of WCLC's operations. Where there has been a change recognized directly in the equity of WCLC, the AGLC recognizes its share of any changes and discloses this, when applicable, in Due to Alberta Lottery Fund. Unrealized gains and losses resulting from transactions between the AGLC and WCLC are eliminated to the extent of the interest in WCLC. The AGLC's share of net income from WCLC is reported in the Statement of Net Income.

The financial statements of WCLC are prepared in accordance with IFRS, for the same reporting period as the AGLC. Where necessary, adjustments are made to bring the accounting policies into conformity with those of the AGLC.

If there were indicators that the investment in WCLC is impaired, the AGLC would calculate the amount of impairment as the difference between the recoverable amount of WCLC and its carrying value. This difference would be recognized in net income from WCLC in the Statement of Net Income.

Upon any loss of significant influence over WCLC, the AGLC would measure and recognize any remaining investment at its fair value. Any difference between the carrying amount of WCLC and the fair value of the investment and proceeds from disposal would be recognized in the Statement of Net Income.

h. Revenue and Expense Recognition

Revenue from casino gaming terminals, video lottery terminals and personal-play electronic bingo is based on bets placed and is recognized at the time when play was completed and all credits were played or converted to cash. Revenue from play-along electronic bingo is recognized at the time of purchase of the cards. Prizes, commissions and federal payments are recognized on the same basis as related revenues.

Revenue from sale of liquor is recognized when goods are shipped and title has passed to the customer. Revenue received in advance of shipment is classified as deferred revenue. Cost of product sold is recognized on the same basis.

i. Impairment of Non-Financial Assets

At each reporting date, if there are indicators that non-financial assets carried at amortized cost may be impaired, the AGLC would complete a formal impairment assessment. For this purpose non-financial assets would be grouped at the lowest level for which there are separately identifiable cash inflows, referred to as cash-generating units. An impairment loss is the amount by which the cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. Impairment losses would be recognized in the Statement of Net Income.

For previously impaired non-financial assets, an assessment is made annually to determine if there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the AGLC would estimate the recoverable amount. A previously recognized impairment loss is reversed only if there has been a change in the assumptions used to determine the recoverable amount since the last impairment loss was recognized. An impairment loss would be reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized in prior years. Such impairment loss reversal would be recognized in the Statement of Net Income, in a manner consistent with the originally recognized impairment loss.

j. Federal Taxes

As a Crown agent of the Government of Alberta, the AGLC has a tax-exempt status. However, under the *Excise Tax Act* and *Games of Chance (GST/HST) Regulations*, the AGLC is required to pay GST and Federal Tax on gaming operations.

k. Operating Expenses

Operating expenses are allocated against Provincial Lotteries Revenue or Liquor and Other Revenue based on the nature of the expense.

l. Allocation of Net Income

The *Gaming and Liquor Act* requires the AGLC to transfer the net operating results to the Alberta Lottery Fund and the General Revenue Fund.

Net operating results arising from the conduct of authorized casino gaming, video lottery, lottery ticket, and electronic bingo in Alberta are transferred to the Alberta Lottery Fund. Note 9 discloses further information on amounts due to the Alberta Lottery Fund.

Net operating results from liquor operations and other revenue are transferred to the General Revenue Fund. Note 10 provides additional information regarding the amount due to the General Revenue Fund.

m. Contingent Liabilities and Provisions

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed by occurrence or non-occurrence of uncertain future events, or are present obligations that are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligation cannot be reliably measured.

Provisions are recognized if, as a result of a past event, the AGLC has a present legal or constructive obligation, it is probable that an outflow of resources will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the Statement of Net Income, net of any reimbursement.

n. Future Accounting Policy Changes

Future accounting policy changes are based on standards issued but not yet effective up to the date of the issuance of the financial statements. The following information is of standards and interpretations issued, which management reasonably expects to be applicable at a future date. The AGLC is currently evaluating the impact of adoption of the amended/new standards.

> IFRS 9 *Financial Instruments* – Issued on July 24, 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2018, with early adoption permitted. The Standard includes requirements for recognition, measurement, impairment and de-recognition of financial instruments, as well as guidance on hedge accounting.

IFRS 15 *Revenue from Contracts with Customers* - Issued on May 28, 2014, mandatorily effective for annual reporting periods commencing on or after January 1, 2018. The Standard provides framework for recognition, measurement and disclosure of revenue and cash flows arising from contracts with customers, as well as requirements for entities to provide users of financial statements with more informative and relevant revenue-related disclosures.

IFRS 16 *Leases* - Issued on January 13, 2016, mandatorily effective for annual reporting periods commencing on or after January 1, 2019. The Standard sets out the principles for recognition, measurement, presentation and disclosure of leases. It provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases unless the lease term is 12 months or less or the underlying asset has a low value.

3. Significant Accounting Estimates, Assumptions and Critical Judgments

The preparation of the AGLC's financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities and the disclosure of contingent liabilities at the end of the reporting period. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the affected asset or liability in future periods.

For property and equipment, intangible assets and investment properties, judgment is used to estimate the useful life of the assets, based on an analysis of all pertinent factors including the expected use of the asset/asset category. If the estimated useful lives are incorrect, this could result in an increase or decrease in the annual amortization expenses, and future impairment charges.

For the provision for pension liability, judgment is used to estimate the underlying assumptions for future salary increases, inflation rates and discount rates. If these assumptions are incorrect, this could result in an adjustment to the liability and the gain/loss recorded in Other Comprehensive Income (Loss) in the Statement of Comprehensive Income.

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities are described throughout these notes to the financial statements. The AGLC based its assumptions and estimates on parameters available during the preparation of the financial statements. Existing circumstances and assumptions about future development(s) may change due to market changes or circumstances, arising beyond the control of management. Such changes are reflected in the assumptions as they occur.

4. Cash and Cash Equivalents

Cash and cash equivalents consist of cash on hand, current balances in banks and deposits in the Consolidated Cash Investment Trust Fund (CCITF) of the Government of Alberta. Additionally, cash and cash equivalents include the proceeds from table games which the AGLC holds on behalf of charities; further details are provided in Note 18.

The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining appropriate security and liquidity of depositors' capital. The portfolio is comprised of high quality, short-term and mid-term fixed income securities with a maximum term to maturity of three years. For the year ended March 31, 2017, securities held by the CCITF had a time-weighted yield of 0.9% per annum (March 31, 2016: 0.8% per annum). Due to the short-term nature of CCITF investments, the carrying value approximates fair value.

5. Inventory and Prepaid Expenses

	2017	2016
Inventory	$ 10,232	$ 9,662
Prepaid expenses	1,626	1,500
	$ 11,858	$ 11,162

6. Property and Equipment

	Land	Buildings and Leasehold Improvements	Vehicles	Equipment and Computer Hardware	Gaming Equipment and Terminals	Total
Cost, March 31, 2016	$ 2,057	$ 38,745	$ 4,132	$ 28,200	$ 455,418	$ 528,552
Additions	-	1,082	158	9,415	37,788	48,443
Disposals	-	-	(518)	(819)	(16,065)	(17,402)
Cost, March 31, 2017	2,057	39,827	3,772	36,796	477,141	559,593
Accumulated amortization, March 31, 2016	-	(22,225)	(3,267)	(22,015)	(226,511)	(274,018)
Additions	-	(1,220)	(550)	(2,566)	(47,243)	(51,579)
Disposals	-	-	518	819	11,992	13,329
Accumulated amortization, March 31, 2017	-	(23,445)	(3,299)	(23,762)	(261,762)	(312,268)
Net book value, March 31, 2017	$ 2,057	16,382	473	13,034	215,379	247,325
Cost, March 31, 2015	$ 2,057	$ 37,899	$ 3,864	$ 33,368	$ 447,140	$ 524,328
Additions	-	846	268	1,025	29,852	31,991
Disposals	-	-	-	(6,193)	(21,574)	(27,767)
Cost, March 31, 2016	2,057	38,745	4,132	28,200	455,418	528,552
Accumulated amortization, March 31, 2015	-	(21,568)	(2,563)	(24,810)	(198,592)	(247,533)
Adjustment	-	488	-	-	-	488
Additions	-	(1,145)	(704)	(2,494)	(45,921)	(50,264)
Disposals	-	-	-	5,289	18,002	23,291
Accumulated amortization, March 31, 2016	-	(22,225)	(3,267)	(22,015)	(226,511)	(274,018)
Net book value, March 31, 2016	$ 2,057	$ 16,520	$ 865	$ 6,185	$ 228,907	$ 254,534

The estimated useful lives for each asset category are as follows:

Buildings	Up to 40 years
Leasehold improvements	Lease term
Vehicles	3 years
Equipment and computer hardware	Up to 10 years
Gaming equipment and terminals	Up to 8 years

7. Intangible Assets

		Computer Software		Gaming Software		Total
Cost, March 31, 2016	$	28,989	$	35,397	$	64,386
Additions		171		8,837		9,008
Disposals/write-downs		-		(1,532)		(1,532)
Cost, March 31, 2017		29,160		42,702		71,862
Accumulated amortization, March 31, 2016		(17,648)		(17,523)		(35,171)
Additions		(3,660)		(5,266)		(8,926)
Disposals/write-downs		-		341		341
Accumulated amortization, March 31, 2017		(21,308)		(22,448)		(43,756)
Net book value, March 31, 2017	$	7,852	$	20,254	$	28,106
Cost, March 31, 2015	$	27,611	$	28,449	$	56,060
Additions		1,400		6,948		8,348
Disposals		(22)		-		(22)
Cost, March 31, 2016		28,989		35,397		64,386
Accumulated amortization, March 31, 2015		(15,694)		(10,966)		(26,660)
Additions		(1,976)		(6,557)		(8,533)
Disposals		22		-		22
Accumulated amortization, March 31, 2016		(17,648)		(17,523)		(35,171)
Net book value, March 31, 2016	$	11,341	$	17,874	$	29,215

The estimated useful lives for each asset category are as follows:

Computer software	Up to 10 years
Gaming software	5 years

8. Investment Properties

	Land	Buildings	Work in Progress	Total
Cost, March 31, 2016	$ 21,126	$ 31,256	$ 13,985	$ 66,367
Additions	-	482	46,435	46,917
Disposals	-	-	-	-
Cost, March 31, 2017	21,126	31,738	60,420	113,284
Accumulated amortization, March 31, 2016	-	(23,969)	-	(23,969)
Additions	-	(807)	-	(807)
Disposals	-	-	-	-
Accumulated amortization, March 31, 2017	-	(24,776)	-	(24,776)
Net book value, March 31, 2017	$ 21,126	$ 6,962	$ 60,420	$ 88,508
Cost, March 31, 2015	$ 21,123	$ 30,407	$ 5,862	$ 57,392
Additions	3	849	8,123	8,975
Disposals	-	-	-	-
Cost, March 31, 2016	21,126	31,256	13,985	66,367
Accumulated amortization, March 31, 2015	-	(23,627)	-	(23,627)
Adjustment	-	418	-	418
Additions	-	(760)	-	(760)
Disposals	-	-	-	-
Accumulated amortization, March 31, 2016	-	(23,969)	-	(23,969)
Net book value, March 31, 2016	$ 21,126	$ 7,287	$ 13,985	$ 42,398

(a) The estimated useful life for the asset category is as follows:

Buildings	Up to 40 years

(b) The Liquor Distribution Centre under construction is classified as work in progress

(c) Net Profit from Investment Properties

	2017	2016
Rental income derived from investment properties	$ 3,251	$ 2,943
Direct operating expenses (including repair and maintenance)	(1,179)	(1,193)
Net profit arising from investment properties	$ 2,072	$ 1,750

Estimated rental income for the current lease term expiring on January 31, 2018 is:

2017-18	$ 2,709

(d) Fair Value of Investment Properties

	2017	2016
Fair value of investment properties	$ 131,770	$ 87,835

Investment properties are recorded and reported at cost.

The fair value at March 31, 2017 and March 31, 2016 is based on a valuation performed by Bourgeois & Company Ltd., an accredited independent valuator. Bourgeois & Company Ltd. have appropriate qualifications and recent experience in the valuation of similar properties.

The fair value valuation was performed on the distribution and storage facility at 50 Corriveau Avenue using income and direct comparison approaches, while the land purchased at 2 Boudreau Road for the construction of a liquor distribution centre was valued using the direct comparison approach. The valuation did not include the liquor distribution centre currently under construction as the $60.4 million in costs incurred to-date are assumed to equal the current fair market value. Both properties are located in St. Albert, Alberta.

9. Due to Alberta Lottery Fund

The *Gaming and Liquor Act* requires the AGLC to transfer the net operating results from provincial lotteries to the Alberta Lottery Fund. This amount represents the portion of net operating results which has not been transferred to the Alberta Lottery Fund at year end due to timing of transfers.

	Note	2017	2016
Due to Alberta Lottery Fund, beginning of year		$ 71,316	$ 108,085
Net income, Provincial Lotteries	12	1,429,604	1,552,747
Transfers to Alberta Lottery Fund		(1,441,875)	(1,589,516)
Due to Alberta Lottery Fund, end of year		$ 59,045	$ 71,316

Amounts due to Alberta Lottery Fund are unsecured, non-interest bearing and have no specific terms of repayment.

10. Due to General Revenue Fund

The *Gaming and Liquor Act* requires the AGLC to transfer the net operating results from liquor operations and other revenues to the General Revenue Fund. This amount represents the portion of net operating results which has not been transferred to the General Revenue Fund.

	Note	2017	2016
Due to General Revenue Fund, beginning of year		$ 305,254	$ 279,461
Net income, liquor and other	12	855,255	855,793
Transfers to General Revenue Fund		(838,000)	(830,000)
Due to General Revenue Fund, end of year		$ 322,509	$ 305,254

Amounts due to General Revenue Fund are unsecured, non-interest bearing and have no specific terms of repayment. The AGLC does not expect to pay the total amount owing to General Revenue Fund during the next fiscal year as the AGLC retains funds to maintain a sufficient level of liquidity to support its business operations.

11. Employee Benefit Plans

Change in Plan Assets and Benefit Obligations

	2017				2016			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Change in Fair Value of Plan Assets								
Opening balance, fair value of plan assets	$ 122,052	$ 47,731	$ 1,594	$ 171,377	$ 103,965	$ 42,875	$ 1,405	$ 148,245
Employer contributions	7,757	2,600	128	10,485	7,629	2,339	149	10,117
Benefits paid	(5,451)	(2,378)	(66)	(7,895)	(5,628)	(2,074)	(48)	(7,750)
Interest income	4,435	1,722	65	6,222	3,569	1,462	55	5,086
Actuarial gain on plan assets	4,892	5,458	414	10,764	12,517	3,129	33	15,679
Closing balance, fair value of plan assets	$ 133,685	$ 55,133	$ 2,135	$ 190,953	$ 122,052	$ 47,731	$ 1,594	$ 171,377
Change in Defined Benefit Obligation								
Opening balance, defined benefit obligation	$ 167,091	$ 61,272	$ 1,920	$ 230,283	$ 155,308	$ 59,308	$ 1,842	$ 216,458
Current-service cost	7,375	2,703	135	10,213	7,214	2,539	158	9,911
Benefits paid	(5,451)	(2,378)	(66)	(7,895)	(5,628)	(2,074)	(48)	(7,750)
Interest expense	6,050	2,212	78	8,340	5,308	2,024	72	7,404
Actuarial (gain) loss on plan liabilities	6,185	5,260	931	12,376	4,889	(525)	(104)	4,260
Closing balance, defined benefit obligation	$ 181,250	$ 69,069	$ 2,998	253,317	$ 167,091	$ 61,272	$ 1,920	$ 230,283
Net Pension Benefit Liability	$ (47,565)	$ (13,936)	$ (863)	$ (62,364)	$ (45,039)	$ (13,541)	$ (326)	$ (58,906)

Employer's portion of the Net Pension Benefit Liability is recorded as a provision and included as a liability in the Statement of Financial Position. The portions attributable to the AGLC are 50% for PSPP, 57% for MEPP, and 64% for SRP.

Accumulated Other Comprehensive Income

	2017				2016			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Actuarial gain on plan assets	$ (4,892)	$ (5,458)	$ (414)	$ (10,764)	$ (12,517)	$ (3,129)	$ (33)	$ (15,679)
Experience (gain) loss on plan liabilities	6,185	5,260	931	12,376	4,889	(525)	(104)	4,260
Amount recognized in OCI	1,293	(198)	517	1,612	(7,628)	(3,654)	(137)	(11,419)
Beginning balance, AOCI	18,341	5,476	131	23,948	25,969	9,130	268	35,367
Ending balance, AOCI	$ 19,634	$ 5,278	$ 648	$ 25,560	$ 18,341	$ 5,476	$ 131	$ 23,948

Defined Benefit Pension Expense

	2017				2016			
	PSPP	MEPP	SRP	Total	PSPP	MEPP	SRP	Total
Current service cost (employer)	$ 7,375	$ 2,703	$ 135	$ 10,213	$ 7,214	$ 2,539	$ 158	$ 9,911
Interest expense	6,050	2,212	78	8,340	5,308	2,024	72	7,404
Interest income on assets	(4,435)	(1,722)	(65)	(6,222)	(3,569)	(1,462)	(55)	(5,086)
Net pension-benefit expense recognized	$ 8,990	$ 3,193	$ 148	$ 12,331	$ 8,953	$ 3,101	$ 175	$ 12,229

Key Assumptions, Sensitivities and Risks

The principal assumptions used in the actuarial determinations of projected benefit obligations and the related net benefit expense are as follows:

	2017			2016		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Discount rate:	3.60%	3.50%	3.90%	3.60%	3.60%	4.00%
Inflation rate:	2.00%	2.00%	2.00%	2.00%	2.00%	2.00%
Average wage increases:	3.00%	3.00%	3.00%	3.00%	3.00%	3.00%
AGLC's share of plan payroll:	2.22%	2.07%	1.90%	2.20%	1.76%	1.81%
Date of the most recent actuarial valuation:	Dec. 31,2014	Dec. 31,2015	Dec. 31,2015	Dec.31,2014	Dec. 31, 2012	Dec. 31, 2012
AGLC's expected contributions for the next period – all plans:		$ 10,353			$ 9,533	

Additional assumptions are described in the valuation reports for each of the respective plans.

	2017			2016		
	PSPP	MEPP	SRP	PSPP	MEPP	SRP
Estimated sensitivity of liabilities to a 1% change in the discount rate:	14.20%	13.50%	18.90%	13.50%	13.70%	19.20%
Estimated sensitivity of liabilities to a 1% change in the inflation rate:	7.70%	7.10%	8.00%	6.70%	8.00%	8.70%

Economic risk

Defined benefit plans are directly exposed to economic risks from plan assets invested in capital markets, and indirectly with respect to measurement risk from assumptions based on economic factors, such as discount rates affected by volatile bond markets.

Demographic risk

Demographic factors affect current and future benefit costs with respect to the amount and time horizon of expected payments due to factors such as workforce average age and earnings levels, attrition and retirement rates, mortality and morbidity rates etc.

Multi-employer plan funding risk

In addition to economic and demographic risk factors, the AGLC is exposed to funding risk in the multi-employer plans arising from:

- Legislative changes affecting eligibility for, and amount of, pension and related benefits; and
- Performance of plan assets affected by investment policies set by the government.

Because these plans are governed by legislation rather than contract, there is little flexibility for participants with respect to withdrawal from the plan, plan wind-up or amendments, and mandatory funding requirements.

12. Gaming and Liquor Operating Results

Management monitors the operating results of the revenue sectors in order to make decisions about resource allocation and performance assessment. Operating expenses are not allocated to the individual revenue sectors, but are allocated between Provincial Lotteries Revenue and Liquor and Other Revenue as authorized by the *Gaming and Liquor Act*.

	2017						2016
	Provincial Lotteries				Liquor and Other	Total	Total
	Casino Gaming Terminals	Video Lottery Terminals	Electronic Bingo (a)	Subtotal			
Net sales	$ 1,133,302	$ 587,107	$ 11,432	$ 1,731,841	$ 877,142	$ 2,608,983	$ 2,721,437
Commissions							
Operators/retailers	(166,755)	(88,066)	(1,715)	(256,536)	-	(256,536)	(273,858)
Charities	(156,144)	-	(1,773)	(157,917)	-	(157,917)	(168,433)
Federal tax expense(b)	(10,391)	(5,187)	(170)	(15,748)	-	(15,748)	(16,552)
	(333,290)	(93,253)	(3,658)	(430,201)	-	(430,201)	(458,843)
Net revenue	$ 800,012	$ 493,854	$ 7,774	1,301,640	877,142	2,178,782	2,262,594
Operating expenses				(185,893)	(38,705)	(224,598)	(224,298)
Profit from operations				1,115,747	838,437	1,954,184	2,038,296
Other revenue				(1,654)	16,818	15,164	18,052
Income from Western Canada Lottery Corporation				315,511	-	315,511	352,192
Net income				$ 1,429,604	$ 855,255	$ 2,284,859	$ 2,408,540

(a) includes Keno charity commissions

(b) as prescribed by the *Games of Chance (GST/HST) Regulations* of the *Excise Tax Act* (Regulations) taxes are paid to the Government of Canada in lieu of the Goods and Services Tax (GST) on casino gaming terminal, video lottery terminal and electronic bingo sales (imputed tax) based on a formula set out in the Regulations. This tax is in addition to the GST paid on the purchase of goods and services for which a credit is not allowed under the aforementioned formula.

13. Operating Expenses

	2017	2016
Salaries and benefits	$ 94,215	$ 92,264
Amortization	61,312	59,556
Leased gaming terminals	25,282	26,469
Equipment and vehicles	9,173	13,504
Data processing	6,923	6,034
Data communications	6,243	6,817
Fees and services	4,952	3,971
Property	3,561	3,289
Marketing and retailer relations	2,799	2,396
Freight and ticket product delivery	2,181	1,834
Net interest in net pension benefit liability	2,118	2,318
Travel and training	1,976	2,034
Insurance and bank charges	1,525	1,359
Stationery and supplies	1,468	1,615
Miscellaneous	724	697
Liquor product expense	146	141
	$ 224,598	$ 224,298

14. Other Revenue

	2017	2016
Licences	$ 6,551	$ 6,401
Premises rental revenue	3,251	2,943
Liquor levies	1,980	1,847
Miscellaneous	1,814	3,669
Interest	1,717	1,518
ProServe fees	1,194	1,193
Retailer service fees	712	703
Administrative sanctions	373	214
Loss on disposal of property, equipment and intangible assets	(2,428)	(436)
	$ 15,164	$ 18,052

15. Investment in Western Canada Lottery Corporation

The AGLC's interest in the Western Canada Lottery Corporation (WCLC) is based on Alberta's share of lottery ticket sales. The WCLC is a private entity that is not listed on any public exchange.

The following tables present summarized financial information of the AGLC's investment in the WCLC.

	2017	2016
Statement of Financial Position (WCLC)		
Current assets	$ 89,726	$ 79,680
Property and equipment	9,195	8,634
Intangible assets	8,716	9,234
	$ 107,637	$ 97,548
Current liabilities	$ 108,133	$ 99,707
Employee benefits	11,145	14,195
Equity	(11,641)	(16,354)
	$ 107,637	$ 97,548
Statement of Revenue and Expenses (Alberta's portion)		
Lottery sales, net (a)	$ 865,529	$ 976,770
Direct expenses (a)	(503,442)	(577,869)
Gross income	362,087	398,901
Operating expenses	(33,694)	(32,401)
Interest and other income	977	-
Net income from operations	329,370	366,500
Federal tax expense (a)	(4,775)	(5,252)
Payment to the Federal Government (b)	(9,084)	(9,056)
Income from Western Canada Lottery Corporation	$ 315,511	$ 352,192

(a) On-line ticket lottery revenues are recognized at the date of the draw, with instant ticket revenues being recognized at the date activated for sale by the retailer. Prizes, commissions and federal tax expenses related to ticket revenues are recognized on the same basis as related revenues.

(b) Payment made to the federal government resulting from an agreement between the provincial governments and the federal government on the withdrawal of the federal government from the lottery field. The payment is made by the WCLC on behalf of Alberta and is based on current population statistics and its share of ticket lottery sales.

Statement of Change in Investment in WCLC

	2017	2016
Investment in WCLC, opening balance	$ 29,293	$ 35,204
Net operating results recorded by AGLC	$ 315,511	$ 352,192
Interest revenue recorded by Alberta Lottery Fund	-	1,343
WCLC net income allocated to Alberta	$ 315,511	$ 353,535
Advances received from WCLC	(308,703)	(359,446)
Investment in WCLC, closing balance	$ 36,101	$ 29,293

16. Contractual Obligations and Finance Lease Commitments

The AGLC has various obligations under long-term contracts, including service contracts and operating leases for buildings. The total expected payments for these obligations for each of the next five fiscal years and thereafter are as follows:

	2017	2016
2017	$ -	$ 107,484
2018	70,934	38,889
2019	51,991	29,807
2020	17,244	14,764
2021	4,909	4,379
2022	4,753	-
Thereafter	3,121	1,438
	$ 152,952	$ 196,761

The future minimum lease payments required under finance leases are as follows:

	2017	2016
Not later than 1 year	$ -	$ 487
Later than 1 year but not later than 5 years	-	772
Later than 5 years	-	-
	$ -	$ 1,259

The AGLC has lease obligations for former retail liquor stores, which have been sub-leased to third parties. Provision for loss on leased properties of $145 (2016 - $144) has been made where the payments to be received on the sub-leases are lower than the lease payments to be made. Estimated receipts for the next five years and thereafter are as follows:

2017-18	$	56
2018-19		56
2019-20		56
2020-21		56
2021-22		56
Thereafter		580
	$	860

17. Contingent Liabilities and Provisions

The AGLC has been named as a defendant in several legal actions and claims. While the outcome of these claims cannot be determined, management is of the opinion that the appropriate adjustments have been made and the ultimate outcome is not expected to have material adverse effect in the financial position or operations of the AGLC.

The AGLC amended a lease agreement with a tenant on February 5, 2016. Under the terms of the amended agreement, the AGLC has agreed to assume certain third party premises leases for the remainder of the lease term, if a significant change in the terms of the tenant's appointment occurs before January 31, 2020. As of March 31, 2017, the AGLC's potential liability is $17.3 million (2016 - $21.3 million).

A provision for loss on leased properties has been recorded on onerous lease contracts on former retail liquor store operations that could not be terminated by the AGLC at the time of liquor privatization in 1993. The provision is determined based on the difference between the aggregate estimated sublease revenue and the total lease obligations. As at March 31, 2017, there were 2 leases (2016 – 2 leases) that make up the provision.

		Lease Provision
As at March 31, 2016	$	144
Amounts charged against the provision		(6)
Estimate adjustment		7
As at March 31, 2017	$	145
Expected outflow of resources		
Within one year	$	6
After one year but not more than five years		26
After five years		113
	$	145

18. Funds under Administration

The AGLC manages the collection, investment and distribution of the charities' share of proceeds/losses from table games at licensed charitable casino events.

The share of proceeds/losses from these table games allocated to charities is established in policy and by agreement between the participating charity and the relevant casino operator. These allocations are collected by the AGLC and pooled by casino or region; these funds earn interest and are subject to administrative fees. At the end of the pooling period (quarterly) the net proceeds in each pool are distributed equally to each charity holding a licensed charitable casino event in the casino/region during the pooling period.

	2017	2016
Charitable proceeds	$ 17,049	$ 18,197
Held charitable proceeds	153	143
	$ 17,202	$ 18,340

19. Salaries and Benefits

The following table discloses the amounts earned by board members and senior executives in the year ended March 31, 2017:

	2017					2016
	Note	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Chair of the Board	d	$ 118	$ -	$ 5	$ 123	$ 112
Members of the Board	e	216	-	21	237	212
President and Chief Executive Officer	f	286	204	79	569	374
Vice Presidents (VP)						
VP, Regulatory Services	g	202	129	53	384	247
VP, Information Technology and Chief Information Officer	h	197	64	55	316	281
VP, Liquor Services	i	178	-	47	225	248
VP, Human Resources and Employee Development	j	262	133	76	471	253
VP, Lottery and Gaming Services		196	1	50	247	258
VP, Corporate Services and Chief Financial Officer	k	186	1	62	249	227
VP, Corporate Strategic Services and Chief Risk Officer	l	57	4	17	78	-
Senior VP, Corporate Services	m	66	1	20	87	295
VP, Charitable Gaming Program and Regulatory Services	n	133	163	36	332	-

(a) Base salary consists of regular base pay, including acting pay.
For chair and members of the Board, it consists of remuneration paid, based on rates prescribed in Committee Remuneration Order, for time spent on the business of the Board.

(b) Other cash benefits consist of vacation payouts, wellness spending account payments and severance payments. There were no bonuses paid during the year.

(c) Other non-cash benefits include the AGLC's share of employee benefits and contributions/payments made on behalf of employees including pension, supplementary retirement plans, health care, dental coverage, group life insurance, short and long term disability plans, professional memberships and tuition fees.

(d) Term ended on March 31, 2017.

(e) At any given time the Board consists of no more than 6 members plus the chair, whose remuneration is disclosed separately.

(f) Occupancy of the position changed on March 16, 2017.
Other cash benefits include $166 of severance benefits paid as a result of a termination agreement.
Automobile benefit of $6 (2016 -$4) is included in other non-cash benefits.

(g) Occupancy of the position changed on August 17, 2016 and March 16, 2017.
Other cash benefits include $101 of severance benefits paid as a result of a termination agreement.
Position title and scope of responsibilities changed during the year due to organizational re-alignments.

(h) Occupancy of the position changed on February 13, 2017.
Other cash benefits include $37 of severance benefits paid as a result of a termination agreement.
Position title and scope of responsibilities changed during the year due to organizational re-alignments.

(i) Occupancy of the position changed on August 10, 2016.

(j) Occupancy of the position changed on July 2, 2016, however there was a five month overlap in occupancy due to an extended vacation period.
Other cash benefits include $120 of severance benefits paid as a result of a termination agreement.

(k) Position title and scope of responsibilities changed during the year due to organizational re-alignments.

(l) Position created on November 21, 2016.

(m) Position eliminated on July 15, 2016.

(n) Position created on July 18, 2016 and eliminated on February 28, 2017.
Other cash benefits include $149 of severance benefits paid as a result of a termination agreement.

20. Financial Instruments and Risk Management

The AGLC's financial instruments consist of cash, trade and other receivables, trade and other payables, and payables to the General Revenue Fund and the Alberta Lottery Fund. The carrying values of the AGLC's financial instruments approximate their fair values, unless otherwise noted.

The AGLC is exposed to credit and liquidity risks from financial assets and liabilities. The AGLC actively manages the exposure to these risks.

Credit risk represents the loss that would be recognized if parties holding financial assets of the AGLC fail to honour their obligations or pay amounts due causing a financial loss. Credit risk is minimized as the AGLC does not have significant exposure to any individual retail entity.

Liquidity risk is the risk the AGLC would encounter difficulties in meeting its financial obligations as they fall due. The risk is reduced as the majority of the AGLC's operational activities involve cash sales and short-term accounts receivables. The AGLC relies on the funds generated from its operations to meet operating requirements and to finance capital investment. The risk is further mitigated by forecasting and assessing actual cash flow requirements on an on-going basis.

21. Related Party Transactions

The AGLC is a wholly-owned Crown corporation of the Government of Alberta. All transactions with the Government of Alberta ministries, agencies and Crown corporations are in the normal course of operations and are measured at terms equivalent to those that prevail in arm's length transactions.

The AGLC reports to the President of Treasury Board and Minister of Finance. Any ministry, department or entity the Minister is responsible for is a deemed related party to the AGLC. These include:

- Department of Treasury Board and Finance, including Risk Management and Insurance
- Alberta Lottery Fund
- General Revenue Fund

During the year, the AGLC made payments totalling $434 (2016 - $408) to Risk Management and Insurance. Transactions with the Alberta Lottery Fund are disclosed in Note 9 and transactions with the General Revenue Fund are disclosed in Note 10.

The Western Canada Lottery Corporation (WCLC), an associated entity as disclosed in Note 2g, is also deemed to be a related party to the AGLC. Details of transactions with the WCLC are disclosed in Note 15. In addition to these transactions, the AGLC received $712 (2016 - $703) in retailer service fees from the WCLC.

The Board members of the AGLC, executive management and their close family members are deemed to be related parties to the AGLC. Compensation for the Board members and executive management is disclosed in Note 19, while transactions with close family members are immaterial.

22. Approved Budget

The AGLC includes its annual budget in its business plan. On recommendation from the Board, the budget receives approval by the Minister of Treasury Board and Finance, and becomes part of the fiscal plan of the Government of Alberta.

	2017
Liquor revenue	$ 2,654,959
Liquor cost of sales	(1,757,044)
	897,915
Gaming revenue	1,786,553
	2,684,468
Commissions and federal payments (a)	(444,938)
Operating expenses	(239,260)
Profit from operations	2,000,270
Other revenue	15,082
Income from Western Canada Lottery Corporation	303,595
Net income	$ 2,318,947
Loss on pension liability	(11,500)
Total comprehensive income	$ 2,307,447

(a) includes Keno charity commissions

23. Comparative Figures

Certain comparative figures have been reclassified to conform to the current presentation.

ATB FINANCIAL

Consolidated Financial Statements

Year Ended March 31, 2017

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These ATB Financial Consolidated Financial Statements are a copy from the ATB Financial 2017 Annual Report. A complete copy of the ATB Financial Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the ATB Financial website at www.atb.com.

INDEPENDENT AUDITOR'S REPORT

AUDITOR
GENERAL
Alberta

To the President of Treasury Board and Minister of Finance

Report on the Consolidated Financial Statements

I have audited the accompanying consolidated financial statements of ATB Financial, which comprise the consolidated statement of financial position as at March 31, 2017, and the consolidated statements of income, comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these consolidated financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the consolidated financial statements present fairly, in all material respects, the financial position of ATB Financial as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

May 25, 2017
Edmonton, Alberta

Consolidated Statement of Financial Position

As at March 31 *($ in thousands)*	Note	2017	2016
Assets			
Cash resources	6		
Cash		$ 314,300	$ 310,844
Interest-bearing deposits with financial institutions		647,549	704,317
		961,849	1,015,161
Securities	7		
Securities measured at fair value through net income		4,984,678	3,747,323
Securities available for sale		-	182
		4,984,678	3,747,505
Securities purchased under reverse repurchase agreements		450,661	-
Loans	8		
Business		19,046,406	19,199,157
Residential mortgages		14,947,751	14,318,656
Personal		6,622,936	6,614,996
Credit card		703,817	690,204
		41,320,910	40,823,013
Allowance for loan losses	9	(509,688)	(472,856)
		40,811,222	40,350,157
Other assets			
Derivative financial instruments	10	450,847	765,653
Property and equipment	11	362,750	378,332
Software and other intangibles	12	274,616	270,972
Other assets	13	250,663	229,498
		1,338,876	1,644,455
Total assets		$ 48,547,286	$ 46,757,278
Liabilities and equity			
Liabilities			
Deposits	14		
Personal		$ 13,316,717	$ 13,088,145
Business and other		20,611,043	17,774,144
		33,927,760	30,862,289
Other liabilities			
Wholesale borrowings	21	2,892,336	5,047,744
Collateralized borrowings	15	6,812,660	5,497,768
Derivative financial instruments	10	339,092	573,084
Other liabilities	16	1,083,711	1,295,132
		11,127,799	12,413,728
Subordinated debentures	17	344,441	371,441
Total liabilities		45,400,000	43,647,458
Equity			
Retained earnings		3,179,285	3,028,505
Accumulated other comprehensive (loss) income		(31,999)	81,315
Total equity		3,147,286	3,109,820
Total liabilities and equity		$ 48,547,286	$ 46,757,278

The accompanying notes are an integral part of these consolidated financial statements.

Approved by the board:

Original signed by

Brian Hesje
Chair of the Board

Original signed by

Barry James
Chair of the Audit Committee

Consolidated Statement of Income

For the year ended March 31 *($ in thousands)*	Note	2017	2016
Interest income			
Loans		$ 1,566,007	$ 1,546,676
Interest-bearing deposits with financial institutions		4,436	4,657
Securities measured at fair value through net income		42,329	26,989
		1,612,772	1,578,322
Interest expense			
Deposits		339,768	316,521
Wholesale borrowings		64,537	59,519
Collateralized borrowings		113,466	98,120
Subordinated debentures		10,686	11,353
		528,457	485,513
Net interest income		1,084,315	1,092,809
Other income			
Investor Services		161,402	144,938
Service charges		68,114	67,723
Card fees		56,627	52,995
Credit fees		40,485	44,824
Insurance		18,887	20,404
Foreign exchange		8,919	8,927
Net gains on derivative financial instruments		18,311	32,047
Net gains on financial instruments at fair value through net income		11,436	58,421
Sundry		6,715	3,821
		390,896	434,100
Operating revenue		1,475,211	1,526,909
Provision for loan losses	9	234,989	387,559
Non-interest expenses			
Salaries and employee benefits	18,19	542,290	515,878
Data processing		94,711	92,230
Premises and occupancy, including depreciation		93,841	92,895
Professional and consulting costs		58,933	54,441
Deposit guarantee fee	14	42,778	39,217
Equipment, including depreciation		26,197	25,178
Software and other intangibles amortization	12	58,167	48,278
General and administrative		69,847	71,137
ATB agencies		11,011	10,863
Other		46,629	48,805
		1,044,404	998,922
Net income before payment in lieu of tax		195,818	140,428
Payment in lieu of tax	20	45,038	32,298
Net income		$ 150,780	$ 108,130

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Comprehensive Income

For the year ended March 31 *($ in thousands)*		2017		2016
Net income	$	**150,780**	$	108,130
Other comprehensive (loss) income				
Items that may be reclassified subsequently to profit or loss:				
Unrealized net gains on available-for-sale financial assets:				
Unrealized net gains arising during the period		-		151
Net gains reclassified to net income		-		(18)
Unrealized net gains on derivative financial instruments designated as cash flow hedges:				
Unrealized net (losses) gains arising during the period		**(58,766)**		69,339
Net gains reclassified to net income		**(63,099)**		(68,536)
Items that will not be reclassified to profit or loss:				
Remeasurement of defined benefit plan liabilities		**8,551**		(7,433)
Other comprehensive (loss) income		**(113,314)**		(6,497)
Comprehensive income	$	**37,466**	$	101,633

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Changes in Equity

For the year ended March 31 *($ in thousands)*		2017		2016
Retained earnings				
Balance at beginning of the year	$	**3,028,505**	$	2,920,375
Net income		**150,780**		108,130
Balance at end of the year		**3,179,285**		3,028,505
Accumulated other comprehensive (loss) income				
Available-for-sale financial assets				
Balance at beginning of the year		-		(133)
Other comprehensive income		-		133
Balance at end of the year		-		-
Derivative financial instruments designated as cash flow hedges				
Balance at beginning of the year		**161,886**		161,083
Other comprehensive (loss) income		**(121,865)**		803
Balance at end of the year		**40,021**		161,886
Defined benefit plan liabilities				
Balance at beginning of the year		**(80,571)**		(73,138)
Other comprehensive income (loss)		**8,551**		(7,433)
Balance at end of the year		**(72,020)**		(80,571)
Accumulated other comprehensive (loss) income		**(31,999)**		81,315
Equity	$	**3,147,286**	$	3,109,820

The accompanying notes are an integral part of these consolidated financial statements.

Consolidated Statement of Cash Flows

For the year ended March 31 *($ in thousands)*		2017		2016
Cash flows from operating activities:				
Net income	$	150,780	$	108,130
Adjustments for non-cash items and others:				
Provision for loan losses		234,989		387,559
Depreciation and amortization		121,062		105,804
Net gains on financial instruments at fair value through net income		(11,436)		(58,421)
Adjustments for net changes in operating assets and liabilities:				
Loans		(630,195)		(2,974,907)
Deposits		3,064,070		274,326
Derivative financial instruments		(41,049)		4,061
Prepayments and other receivables		(29,124)		(15,474)
Due to clients, brokers, and dealers		17,440		24,237
Deposit guarantee fee payable		(25)		4,869
Accounts payable and accrued liabilities		(244,141)		(30,445)
Liability for payment in lieu of tax		12,740		(65,879)
Net interest receivable and payable		13,678		12,147
Change in accrued pension-benefit liability		(3,548)		5,903
Others, net		(22,754)		7,294
Net cash provided by (used in) operating activities		2,632,487		(2,210,796)
Cash flows from investing activities:				
Change in securities measured at fair value through net income		(1,258,498)		(1,652,152)
Change in securities purchased under reverse repurchase agreements		(450,661)		500,094
Change in interest-bearing deposits with financial institutions		56,768		107,936
Purchases and disposals of property and equipment, software, and other intangibles		(109,124)		(105,333)
Net cash used in investing activities		(1,761,515)		(1,149,455)
Cash flows from financing activities:				
Change in wholesale borrowings		(2,155,408)		2,003,614
Change in collateralized borrowings		1,314,892		1,223,588
Net of (repayment) issuance of subordinated debentures		(27,000)		60,102
Net cash (used in) provided by financing activities		(867,516)		3,287,304
Net increase (decrease) in cash		3,456		(72,947)
Cash at beginning of the year		310,844		383,791
Cash at end of the year	$	314,300	$	310,844
Net cash (used in) provided by operating activities includes:				
Interest paid	$	(522,347)	$	(487,931)
Interest received	$	1,620,340	$	1,592,888

The accompanying notes are an integral part of these consolidated financial statements.

Notes to the Consolidated Financial Statements

For the year ended March 31, 2017 ($ in thousands)

1. Nature of Operations

ATB Financial is an Alberta-based financial services provider engaged in retail and commercial banking, credit card, digital banking, wealth management, and investment management services. Alberta Treasury Branches (ATB) is an agent of the Crown in right of Alberta and operates under the authority of the ***Alberta Treasury Branches Act*** (the ***ATB Act***), Revised Statutes of Alberta, 2000, chapter A-37. Under the ***ATB Act***, ATB was established as a provincial Crown corporation governed by a board of directors appointed by the Lieutenant-Governor in Council. The address of the head office is 2100, 10020-100 Street, Edmonton, Alberta, Canada, T5J 0N3.

ATB is exempt from Canadian federal and Alberta provincial income taxes but pays an amount to the provincial government designed to be in lieu of such a charge. (Refer to note 20.)

2. Significant Accounting Policies

a. General Information

Basis of Preparation

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB) and the accounting requirements of the Alberta Superintendent of Financial Institutions (ASFI). These consolidated financial statements were approved by the board of directors on May 25, 2017.

The consolidated financial statements have been prepared on a historical cost basis, except for available-for-sale investments, derivative financial instruments, other financial assets and liabilities held for trading, financial assets and liabilities designated at fair value through net income, and liabilities for cash-settled share-based payments, which have been measured at fair value.

The consolidated financial statements are presented in Canadian dollars, and all values are rounded to the nearest thousand dollars, except when otherwise indicated.

Consolidation – Subsidiaries

Subsidiaries are entities controlled by ATB. Control exists when ATB is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases. The financial statements of the subsidiaries have been prepared using uniform accounting policies for like transactions and other events in similar circumstances.

These consolidated financial statements include the assets, liabilities, and results of operations and cash flows of ATB and its subsidiaries. All intercompany transactions and balances have been eliminated from the consolidated results.

The following wholly owned subsidiaries, created for the purpose of offering investor services, were established by Order in Council and incorporated under the *Business Corporations Act* (Alberta):

- ATB Investment Management Inc., incorporated August 21, 2002
- ATB Securities Inc., incorporated February 6, 2003
- ATB Insurance Advisors Inc., incorporated July 21, 2006

Significant Accounting Judgments, Estimates, and Assumptions

In the process of applying ATB's accounting policies, management has exercised judgment and has made estimates in determining amounts recognized in the consolidated financial statements. The most significant judgments and estimates made include the allowance for loan losses; the fair value of financial instruments; the depreciation of premises, equipment, and amortization of software; and assumptions underlying the accounting for employee benefit obligations. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The consolidated financial statements for the year ended March 31, 2017, provide additional information in the following notes:

- Note 2(c): Financial instruments – fair-value
- Note 2(d): Impairment of financial assets – for the establishment of allowance for loan losses
- Note 7: Securities – for establishing fair value of investments made to a broad range of private Alberta companies
- Note 11: Property and equipment – for establishing the depreciation expense for premises and equipment
- Note 12: Software and other intangibles – for establishing the amortization expense for software
- Note 19: Employee benefits – for establishing the assumptions used

Translation of Foreign Currencies

Financial assets and liabilities denominated in foreign currencies are translated into Canadian dollars at the exchange rate in effect as at the balance sheet date. Operating revenues and expenses related to foreign-currency transactions are translated using the exchange rate at the date of the transaction. Realized and unrealized gains and losses arising from these translations are included in foreign exchange in the Consolidated Statement of Income.

b. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition. ATB classifies financial assets as either financial assets at fair value through net income, loans and receivables, or held-to-maturity or available-for-sale financial assets. Financial liabilities are classified as either financial liabilities at fair value through net income or financial liabilities at amortized cost.

All financial assets and liabilities are initially recognized on the trade date. This is the date that ATB becomes a party to the contractual provisions of the instrument.

ATB derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. For funding transactions, all financial assets that cannot be derecognized continue to be held on ATB's Consolidated Statement of Financial Position, and a secured liability is recognized for the proceeds received. ATB derecognizes a financial liability when its contractual obligations are discharged or cancelled or they expire.

Financial Assets

Financial Assets at Fair Value Through Net Income

This category comprises two subcategories: financial assets held for trading and financial assets designated by ATB at fair value through net income upon initial recognition.

A financial asset is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are classified as financial assets held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to the Consolidated Statement of Income. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest income and expense on financial assets held for trading are included in net interest income. Interest accruals are recorded separately from fair-value measurements. Changes in fair value are determined on a clean-price basis.

ATB designates certain financial assets upon initial recognition as financial assets at fair value through net income (fair-value option). This designation cannot subsequently be changed. The fair-value option is only applied when one of the following conditions is met:

- The designation eliminates or significantly reduces an accounting mismatch that would otherwise arise.
- The financial assets are part of a portfolio of financial instruments that is used for managing risk and is reported to senior management on a fair-value basis.
- The financial asset contains one or more embedded derivatives that must be separated.

The fair-value option is applied to certain interest-bearing deposits and securities that are part of a portfolio managed on a fair-value basis. The fair-value option is also applied to structured instruments that include embedded derivatives. Fair-value changes relating to financial assets designated at fair value through net income are recognized in net gains on financial instruments at fair value through net income.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that ATB intends to sell immediately or in the short term, classifies as held for trading, or upon initial recognition designates as fair value through net income or available for sale
- Those for which the holder may not recover substantially all of its initial investment, other than because of credit deterioration

Loans and receivables are initially recognized at fair value—which is the cash consideration to originate or purchase the loan including any transaction costs—and measured subsequently at amortized cost using the effective interest rate method. Loans and receivables are reported in the Consolidated Statement of Financial Position as loans or securities purchased under reverse repurchase agreements. Interest on items classified as loans and receivables is included in the Consolidated Statement of Income and is reported as part of net interest income. Loan impairments are reported as a deduction from the carrying value of the loan and recognized in the Consolidated Statement of Income as provision for loan losses.

Available-for-Sale Financial Assets

Available-for-sale financial assets are financial assets intended to be held for an indefinite period of time, which may be sold in response to needs for liquidity or changes in interest rates, exchange rates, or equity prices, or that are not classified as loans and receivables, held-to-maturity investments, or financial assets at fair value through net income.

Available-for-sale financial assets are initially recognized at fair value, which is the cash consideration including any transaction costs, and measured subsequently at fair value with gains and losses being recognized in other comprehensive income (OCI), except for impairment losses and foreign-exchange gains and losses, until the financial asset is derecognized.

If an available-for-sale financial asset is determined to be impaired, the cumulative gain or loss previously recognized in other comprehensive income is recognized in the Consolidated Statement of Income. However, interest is calculated using the effective interest method, and foreign currency gains and losses on monetary assets classified as available for sale are recognized in the Consolidated Statement of Income.

Available-for-sale financial assets are reported in the Consolidated Statement of Financial Position as securities available for sale.

Held-to-Maturity Financial Assets

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that ATB's management has the intention and ability to hold to maturity.

These are initially recognized at fair value, including direct and incremental transaction costs and measured subsequently at amortized cost, using the effective interest method. Interest on held-to-maturity investments is included in the Consolidated Statement of Income as net interest income. In the case of an impairment, the impairment loss would be reported as a deduction from the carrying value of the investment and recognized in the Consolidated Statement of Income. ATB did not hold any instruments in this category at the reporting date.

Financial Liabilities

Financial Liabilities at Fair Value Through Net Income

This category comprises two subcategories: financial liabilities held for trading and financial liabilities designated by ATB as fair value through net income upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. These instruments are included in derivative financial instruments in the Consolidated Statement of Financial Position. Gains and losses arising from changes in fair value are included directly in the Consolidated Statement of Income and are reported as net gains on derivative financial instruments.

Financial liabilities classified as fair value through net income have been designated as such by ATB upon initial recognition, on an instrument-by-instrument basis. Management may designate a financial instrument as fair value through net income upon initial recognition when one of the following conditions is met:

- The designation eliminates or significantly reduces a measurement or recognition inconsistency.
- The liabilities are part of a group of financial liabilities or financial assets and liabilities that is managed and whose performance is evaluated on a fair-value basis.
- The financial instrument contains one or more embedded derivatives that significantly modify the cash flows and that would otherwise be separated from their host contract.

Gains and losses arising from changes in the fair value of financial liabilities classified as fair value through net income are included in the Consolidated Statement of Income and are reported as net gains on financial instruments at fair value through net income. Interest expenses on financial liabilities held for trading are included in net interest income. As at March 31, 2017, ATB had no financial liabilities classified as fair value through net income.

Other Liabilities Measured at Amortized Cost

Financial liabilities not classified as fair value through net income fall into this category and are measured at amortized cost. Interest expense is recognized using the effective interest method in net interest expense. Financial liabilities measured at amortized cost include deposits, wholesale borrowings, subordinated debentures, collateralized borrowings, and other liabilities.

c. Financial Instruments – Fair Value

Financial assets and financial liabilities can be measured at fair value or amortized cost, depending on their classification.

Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

When financial instruments are subsequently remeasured, quoted market prices in an active market provide the best evidence of fair value, and when such prices are available, ATB uses them to measure financial instruments. A financial instrument is considered to be quoted in an active market when quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, or pricing service and those prices reflect actual and regularly occurring market transactions on an arm's-length basis. The fair value of a financial asset traded in an active market generally reflects the bid price, and that of a financial liability traded in an active market generally reflects the ask price. If the market for a financial instrument is not active, ATB establishes fair value using a valuation technique that primarily makes use of observable market inputs. Such valuation techniques include the use of available information concerning recent market transactions, reference to the current fair value of a comparable financial instrument, discounted cash flow analysis, option pricing models, and all other valuation techniques commonly used by market participants that provide reliable estimates.

In cases where the fair value is established using valuation models, ATB makes assumptions about the amount, the timing of estimated future cash flows, and the discount rates used. These assumptions are based primarily on observable market inputs such as interest rate yield curves, foreign-exchange rates, credit curves, and price and rate volatility factors. When one or more significant inputs are not observable in the markets, fair value is established primarily on the basis of internal estimates and data, taking into account the valuation policies in effect at ATB, the economic environment, the specific characteristics of the financial asset or liability, and other relevant factors.

The fair values are estimated at the balance sheet date using the valuation methods and assumptions described below.

Financial Instruments Whose Carrying Value Equals Fair Value

The estimated fair value of items that are short term in nature is considered to be equal to their carrying value. These items include cash, securities purchased under reverse repurchase agreements, other assets, and other liabilities.

Securities and Interest-Bearing Deposits With Financial Institutions

The fair values of securities and interest-bearing deposits with financial institutions are based on quoted market prices, if available. Where an active market does not exist, the fair value is estimated using a valuation technique that makes maximum use of observable market data.

Derivative Instruments

Fair value of over-the-counter and embedded derivative financial instruments is estimated using pricing models that take into account current market and contractual prices of the underlying instruments, and time value and yield curve or volatility factors underlying the positions.

Loans and Deposits

For floating-rate financial instruments, fair value is equal to carrying value as the interest rates reprice to market when market rates change. For fixed-rate loans, fair value is estimated by discounting the expected future cash flows at market rates. For fixed-rate deposits, fair value is estimated by discounting the contractual cash flows using market interest rates currently offered for deposits with similar terms. Due to the use of subjective assumptions and measurement uncertainty, the fair-value amounts should not be interpreted as being realizable in an immediate settlement of these instruments.

Wholesale Borrowings, Collateralized Borrowings, and Subordinated Debentures

The fair values of wholesale borrowings, collateralized borrowings, and subordinated debentures are estimated by discounting contractual cash flows using market reference rates currently offered for debt instruments with similar terms and credit risk ratings.

d. Impairment of Financial Assets

Financial Assets Carried at Amortized Cost

ATB assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets measured at amortized cost is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events (a loss event) that occurred after the initial recognition of the asset and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. The criteria that ATB uses to determine that there is objective evidence of an impairment loss include:

- Significant financial difficulty of the issuer or obligor
- A breach of contract, such as a default or significant delinquency in interest or principal payments
- The lender, for economic or legal reasons relating to the borrower's financial difficulty, granting to the borrower a concession that the lender would not otherwise consider
- An assessed probability that the borrower will enter bankruptcy or other financial reorganization
- The disappearance of an active market for that financial asset because of financial difficulties

- Observable data indicating a measurable decrease in the estimated future cash flows from a portfolio of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the portfolio, including:
  - Adverse changes in the payment status of borrowers in the portfolio
  - National or local economic conditions that correlate with defaults on the assets in the portfolio

For purposes of impairment assessments, two groups of assets are formed: individually significant and individually insignificant. For individually significant assets, ATB determines whether objective evidence of impairment exists, and if the asset is found to be impaired, an individual assessment of impairment loss is made. For all other assets, a collective assessment of impairment loss is made, which includes individually significant assets that are not impaired as well as all individually insignificant assets, whether impaired or not. As soon as objective evidence of impairment loss becomes available for individually significant assets, those assets are removed from the collective assessment group.

For loans and receivables, the amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate. The amount of the loss is recognized using an allowance account, and the amount of the loss is included in the Consolidated Statement of Income as a provision for loan losses. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For a collective evaluation of impairment (including individually significant assets for which no objective evidence of impairment exists, and individually insignificant assets), financial assets are grouped by similar risk characteristics. These characteristics are relevant to the estimation of future cash flows for groups of such assets by indicating the counterparty's ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated by the contractual cash flows of the assets in the group and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted by current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist.

The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Following impairment, interest income is recognized using the original effective rate of interest used to discount the future cash flows for measuring the impairment loss. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the Consolidated Statement of Income.

When a loan has been subjected to an individually assessed provision and there is no likelihood of recovery, the loan is written off against the related allowance. Subsequent recoveries of written-off amounts are recorded in the Consolidated Statement of Income as a reduction to the provision.

Assets Classified as Available for Sale

ATB assesses at each reporting date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity investments classified as available for sale, a significant or prolonged decline in the fair value of the security below its cost is objective evidence of impairment resulting in the recognition of an impairment loss. If such evidence exists for available-for-sale financial assets, the cumulative loss—the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss—is removed from equity and recognized in the Consolidated Statement of Income. If the fair value of a debt instrument classified as available for sale subsequently increases, and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through the Consolidated Statement of Income.

e. Securities Purchased Under Reverse Repurchase Agreements and Securities Sold Under Repurchase Agreements

Securities purchased under reverse repurchase agreements represent a purchase of Government of Canada securities by ATB with a simultaneous agreement to sell them back at a specified price on a future date. The difference between the cost of the purchase and the predetermined proceeds to be received based on the repurchase agreement is recorded as securities interest income. Securities purchased under reverse repurchase agreements are fully collateralized, minimizing credit risk, and have been classified and measured at amortized cost.

Securities sold under repurchase agreements represent a sale of Government of Canada securities by ATB with a simultaneous agreement to buy them back at a specified price on a future date. The difference between the proceeds of the sale and the predetermined cost to be paid based on the repurchase agreement is recorded as deposit interest expense. No securities sold under repurchase agreements exist at the reporting date.

f. Derivative Financial Instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying reference rate such as an interest rate, a currency exchange rate, the price of an equity or debt security, or an equity or commodity index.

ATB enters into various over-the-counter and exchange-traded derivatives in the normal course of business, including interest rate swaps, futures, and foreign-exchange and commodity forwards and futures. ATB uses such instruments for two purposes: for its risk management program and to meet the needs of ATB customers.

ATB's corporate derivative portfolio is not intended for speculative income generation but for asset/liability management purposes—that is, to manage ATB's interest-rate, foreign-exchange, and equity- and commodity-related exposures arising from its portfolio of investments and loan assets and deposit obligations.

ATB's client derivative portfolio is not used to generate trading income through active assumption of market risk, but rather is used to meet the risk management requirements of ATB customers. ATB accepts no net exposure to such derivative contracts (except for credit risk), as it either enters into offsetting contracts with other financial institution counterparties or incorporates them into its own risk management programs.

All derivative financial instruments, including embedded derivatives, are classified as held for trading and measured at fair value in the Consolidated Statement of Financial Position. Derivatives with positive fair value are presented as derivative assets, and those with negative fair value are presented as derivative liabilities. Changes in the fair value of derivative financial instruments are recorded in net income, unless the derivative qualifies for hedge accounting as a cash flow hedge, in which case the changes in fair value are reflected in OCI.

Hedge Accounting

For a derivative instrument to qualify for hedge accounting, the hedging relationship between the derivative (hedging) instrument and the hedged item(s) must be designated and formally documented at inception. ATB must also document an assessment of the effectiveness of the derivative instrument in offsetting changes in cash flows or fair value of the hedged item, both at inception of the hedging relationship and on an ongoing basis. When ATB designates a derivative as a hedge, it is classified as either a cash flow hedge or a fair-value hedge.

ATB discontinues hedge accounting when one of the following occurs:

- It is determined that a derivative is not, or has ceased to be, highly effective as a hedge.
- The derivative expires, or is sold, terminated, or exercised.
- The hedged item matures or is sold or repaid.
- A forecast transaction is no longer deemed highly probable.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognized when the hedged item is ultimately recognized in the Consolidated Statement of Income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss recognized in equity is immediately transferred to the Consolidated Statement of Income.

Cash Flow Hedge

ATB's derivative instruments in cash flow hedges are intended to generate cash flows that offset the variability in expected and/or anticipated cash flows from the hedged item. ATB uses various interest rate derivatives to manage risk relating to the variability of cash flows from certain loans and deposits. In a qualifying cash flow hedge relationship, the effective portion of the change in fair value of the hedging derivative instrument is recognized in OCI, and the ineffective portion in net income. Any such amounts recognized in OCI are reclassified from OCI into net income in the same period that the underlying hedged item affects net income.

Fair-Value Hedge

Changes in fair value of derivatives that qualify and are designated as fair-value hedges are recorded in the Consolidated Statement of Income, together with changes in the fair value of the hedged asset or liability attributable to the hedged risk. If the hedge relationship no longer meets the criteria for hedge accounting, it is discontinued. For fair-value hedges of interest rate risk, the fair-value adjustment to the hedged item is amortized to the Consolidated Statement of Income over the period to maturity of the previously designated hedge relationship using the effective interest method. If the hedged item is sold or repaid, the unamortized fair-value adjustment is recognized immediately in the Consolidated Statement of Income. No fair-value hedges exist at the reporting date.

Embedded Derivatives

Embedded derivatives are components within a financial instrument or other contract with features similar to a derivative. Embedded derivatives with economic characteristics and risks considered not closely related to the characteristics and risks of the host contract may need to be accounted for separately if a separate instrument with the same terms would qualify as a derivative and if the host contract is not already measured at fair value. ATB has identified embedded derivatives within certain extendible loan contracts and within all equity-linked and commodity-linked deposit contracts. Any such embedded derivatives are not considered closely related to the host contract and have been accounted for separately as derivative assets or liabilities.

g. Property and Equipment

Property and equipment are carried at cost less accumulated depreciation, except for land, which is carried at cost. Buildings, computer equipment, other equipment, and leasehold improvements are depreciated on a straight-line basis over their estimated useful lives consistent with the expected economic benefits obtained from the asset. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets considering expected usage as well as expected physical wear and tear. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of the assets' useful economic life. Property and equipment acquired under a finance lease are capitalized, and the depreciation period for a finance lease corresponds to the lesser of the useful life or lease term plus the first renewal option, if applicable. No depreciation is calculated on property and equipment under construction or development until the assets are available for use. The estimated useful life for each asset class is as follows:

- Buildings – Up to 20 years
- Buildings under finance lease – Up to 15 years, with certain leases having a useful life of 20 years
- Computer equipment – Up to 4 years
- Other equipment – 5 years
- Leasehold improvements – Lease term plus first renewal period, if applicable

Depreciation rates, calculation methods, and the residual values underlying the calculation of depreciation of items of property and equipment are kept under review to account for any change in circumstances. Gains and losses on the disposal of property and equipment are recorded in the Consolidated Statement of Income in the year of disposal.

h. Software and Other Intangibles

Software and other intangibles are carried at cost less accumulated amortization and are amortized on a straight-line basis over their estimated useful lives consistent with the expected economic benefits obtained from the asset. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software and other intangibles is 3 to 5 years, with certain software having a useful life of 15 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATB and that the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll-related costs for employees directly associated with an internally developed software project.

i. Impairment of Property and Equipment and Software and Other Intangibles

The carrying amount of non-financial assets, which include property and equipment and software and other intangibles, are reviewed for impairment whenever events, changes in circumstances, or technical or commercial obsolescence indicate that the carrying amount may not be recoverable. Software under development is tested annually for impairment. For the purposes of assessing impairment, assets are grouped at the lowest level where there are separately identifiable cash inflows (cash-generating units).

If there is any indication of impairment, the asset's recoverable amount is estimated. The recoverable amount is the greater of an asset's fair value less cost to sell and its value in use. If the carrying amount of the asset exceeds its recoverable amount, an impairment loss is recognized. Impairment losses are recognized in the Consolidated Statement of Income.

Impairment losses may be reversed if the circumstances leading to impairment are no longer present. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount net of depreciation or amortization that would have been determined if no impairment loss had been recognized. Impairment loss reversals are recognized in the Consolidated Statement of Income.

j. Finance and Operating Leases

Leases of assets where ATB has substantially all the risks and rewards incidental to ownership are classified as finance leases. Assets held under finance leases are initially recognized in the Consolidated Statement of Financial Position at an amount equal to the lower of the fair value of the leased property or the present value of the minimum lease payments. The corresponding liability to the lessor is included in other liabilities in the Consolidated Statement of Financial Position. The discount rate used in calculating the present value of the minimum lease payments is either the interest rate implicit in the lease, if it is practicable to determine, or the incremental borrowing rate. Contingent rentals are recognized as an expense in the periods in which they are incurred.

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Operating lease rentals payable are recognized as an expense on a straight-line basis over the lease term, which commences when the lessee controls the physical use of the property. Lease incentives are treated as a reduction of rental expense and are also recognized over the lease term on a straight-line basis. Contingent rentals arising under operating leases are recognized as an expense in the period in which they are incurred.

k. Employee Benefits

ATB provides benefits to current and past employees through a combination of defined benefit (DB) and defined contribution (DC) plans.

ATB's current non-management employees participate in the Public Service Pension Plan (PSPP) with other Alberta public-sector employees. The PSPP is a DB pension plan that provides benefits based on members' years of service and earnings. ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or DC provisions. ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees. For employees where their annual contributions exceed the allowed maximum under the *Income Tax Act*, ATB provides these employees with a Notional Supplemental Plan (NSP), where excess amounts are allocated. This non-registered plan provides employees with notional DC benefits that cannot be provided with the ATB Plan due to contribution limitations.

All expenses related to employee benefits are recorded in the Consolidated Statement of Income as salaries and employee benefits in non-interest expenses.

The cost of the DB plan is determined using an actuarial valuation. The actuarial valuation involves making assumptions about discount rates, expected rates of return on assets, future salary increases, mortality rates, and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty.

The DB Plan was a contributory DB pension plan for the management employees of ATB. Services for the DB Plan were operational from April 1 to July 7, 2016. Effective July 8, 2016, the DB Plan was closed for future service. Although service is closed, assets held in the DB plan for current members will increase for cost-of-living adjustments as well as for their highest five years' average earnings and service for early retirement purposes. Future benefits will be accumulated under the DC provision.

Accounting for Defined Benefit Plans – Registered, Supplemental, and Other

The PSPP and the DB portion of the ATB Plan, SRP, and OPEB obligations provide employee benefits based on members' years of service and highest average salary. The liability recognized in the Consolidated Statement of Financial Position in respect of DB pension plans is the present value of the DB obligation at the date of the Consolidated Statement of Financial Position less the fair value of plan assets. The DB obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the DB obligation is determined by discounting the estimated future cash outflows. Actuarial gains and losses are recognized in OCI. Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Accounting for Defined Contribution Plans

Contributions are expensed as they become due and are recorded in salaries and employee benefits in the Consolidated Statement of Income.

Plan Valuations, Asset Allocation, and Funding

ATB annually measures its accrued benefit obligations and the fair values of plan assets for accounting purposes on March 31 for the PSPP, ATB Plan, SRP, and OPEB obligations. ATB makes regular funding contributions to the DB plan according to the most recent valuation for funding purposes. The SRP and OPEB obligations are not pre-funded, and such benefits are paid from ATB's assets as they become due. The most recent actuarial valuation of the DB provisions of the ATB Plan was performed on December 31, 2016. The DB plan's investment policy sets targets for an acceptable range for the allocation of plan assets between equity, debt, and other assets. (Refer to note 19.)

l. Provisions

Provisions are recognized when it is probable that an outflow of economic benefits will be required to settle a current legal or constructive obligation, which has arisen as a result of past events and for which a reliable estimate can be made of the amount of the obligation.

Contingent liabilities, which include certain guarantees and letters of credit pledged as collateral security, are possible obligations that arise from past events whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of ATB, or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed unless the probability of settlement is remote.

m. Financial Guarantees

Liabilities under financial guarantee contracts are initially recorded at their fair value, which is generally the fee received or receivable. Subsequently, the financial guarantee liabilities are measured at the higher of the initial fair value, less cumulative amortization, and the best estimate of the expenditure required to settle the obligations.

n. Securitization

Securitization of residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation through the Canada Mortgage Bonds Program, or to third-party investors, and securitization of credit card receivables provide ATB with additional sources of liquidity. As ATB retains substantially all the risks and rewards related to the assets, the credit card receivables and mortgage loans are not derecognized and remain in the Consolidated Statement of Financial Position, and are carried at amortized cost. The risks associated with credit card receivables and residential mortgage loans are credit and interest rate risks, with prepayment risks also impacting residential mortgage loans. ATB recognizes a liability for cash proceeds received from securitization. This liability is presented under collateralized borrowings in the Consolidated Statement of Financial Position.

o. Segmented Information

An area of expertise is a distinguishable component of ATB engaged in providing products or services that is subject to risks and returns that are different from those of other areas. The Corporate Management Committee regularly reviews operating activity by area. All transactions between areas are conducted on an arm's-length basis, with intra-segment revenue and costs being eliminated in strategic service units. Income and expenses directly associated with each area are included in determining that area's performance.

p. Revenue Recognition

Interest Income and Expenses

Interest income and expenses for all interest-bearing financial instruments are recognized in the Consolidated Statement of Income using the effective interest method. The effective interest method calculates the amortized cost of a financial asset or a financial liability and allocates the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, ATB estimates cash flows considering all contractual terms of the financial instrument (for example, prepayment options) but does not consider future loan losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs, and all other premiums or discounts.

Fees and Commission Income and Expenses

Fees and commission income and expenses integral to the effective interest rate on a financial asset or liability are included when calculating the effective interest rate. Other fees and commission income, including account servicing fees, investment management fees, card fees, commitment fees, and placement fees, are recognized as the related services are performed. Where ATB is the lead in a syndication, loan syndication fees are recognized in fees and commission income, unless the yield on any loans retained is less than that of the other lenders involved in the financing, in which case an appropriate portion of the syndication fee is recorded as interest income over the term of the loan. Other fees and commission expenses relate mainly to transaction and service fees, which are expensed as the services are received.

3. Summary of Accounting Policy Changes

Changes in Accounting Policies and Disclosures

IAS 16 and IAS 38 *Clarification of Acceptable Methods of Depreciation and Amortization*

On April 1, 2016, ATB adopted the amendments to IAS 16 *Property, Plant and Equipment* and IAS 38 *Intangible Assets*. The amendments provide additional guidance on how the depreciation or amortization of property, plant, equipment, and intangible assets should be calculated. There was no impact to ATB's depreciation and amortization rates, calculation methods, or financial results.

Future Accounting Policy Changes

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

Classification and Measurement

IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories that determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit and loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected.

Impairment

IFRS 9 introduces a new impairment model based on expected credit losses (ECL). The model will apply to all financial assets, which includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees, with the most significant impact to loans. Financial assets classified or designated at fair value through profit and loss will be excluded from the new impairment model.

The expected credit losses will be measured at each reporting date based on a three-stage impairment model and will consider whether there has been a significant increase in credit risk since initial recognition of the financial asset. If there has not been a significant increase in credit risk at the reporting date, the ECL will be measured at and recognized at 12-month expected credit losses and remain at stage one. A financial asset will move to stage two if a significant increase in credit risk has occurred since initial recognition and a loss allowance equal to the full lifetime expected credit losses is recognized. A financial asset will move to stage three when it is credit impaired. In stage three, interest income is recognized on the carrying amount of the asset, net of the impairment allowance. A financial asset can move between the stages, both forwards and backwards, depending on the improvement or deterioration in credit risk.

Hedge Accounting

IFRS 9 also introduces a new model that aims to simplify hedge accounting, expands on the scope of eligible hedged items and risks eligible for hedge accounting and more closely aligns the accounting for hedge relationships with ATB's risk management activities. The model also revises the effectiveness testing to consider the economic relationship and does not allow for voluntary hedge de-designation. In addition, amendments to IFRS 7 *Financial Instruments: Disclosures* introduce new hedge accounting disclosure requirements that are required for the annual period beginning April 1, 2018.

Transition

IFRS 9 will be effective for ATB's fiscal year beginning on April 1, 2018. ATB has established the conditions of and approach to the IFRS 9 compliance project. As part of the overall project governance structure, the IFRS 9 Steering Committee monitors the project progress and reviews and approves approaches for significant issues and decisions.

The IFRS 9 compliance project focuses on the three main areas of the new IFRS 9 standard: classification and measurement, impairment, and hedge accounting. The impact on transition to IFRS 9 on the financial statements has not yet been determined.

IFRS 15 *Revenue From Contracts With Customers*

In September 2015, the IASB published *Effective Date of IFRS 15*, which deferred the effective date of IFRS 15 *Revenue From Contracts With Customers*, which replaces all existing IFRS revenue requirements. The standard clarifies the principles for recognizing revenue and cash flows arising from contracts with customers.

The amendment must be applied retrospectively for annual periods beginning on or after January 1, 2018, with the impact to ATB on on- and off-book GIC commission revenue earned by ATBIS.

IFRS 16 *Leases*

In January 2016, the IASB published a new standard, IFRS 16 *Leases*, bringing leases for lessees under a single model and eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged.

ATB is currently assessing the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2019. Earlier application is permitted if IFRS 15 *Revenue From Contracts With Customers* has also been applied.

IAS 7 *Statement of Cash Flows*

In January 2016, IASB published amendments to IAS 7 *Statement of Cash Flows*, which are intended to improve information about an entity's financing activities by providing additional disclosure about the changes in liabilities arising from financing activities.

ATB has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted. ATB will be required to separately disclose issuances and repayments of its financing activities on the Consolidated Statement of Cash Flows.

IAS 28 *Investments in Associates and Joint Ventures*

In December 2016, the IASB issued the *Annual Improvements 2014-2016 Cycle* that amends IFRS 1 *First-time Adoption of International Financial Reporting Standards*, IFRS 12 *Disclosure of Interests in Other Entities*, and IAS 28 *Investments in Associates and Joint Ventures*. The amendment to IAS 28 *Investments in Associates and Joint Ventures* is the only standard applicable to ATB. The amendment clarifies and permits the option at initial recognition to measure an associate at fair value through profit or loss on an investment-by-investment basis.

ATB is currently assessing the impact of adopting the amendment, which must be applied retrospectively for annual periods beginning on or after January 1, 2018, with early adoption permitted.

IFRIC 22 *Foreign Currency Transactions and Advance Consideration*

In December 2016, the IASB issued IFRIC 22 *Foreign Currency Transactions and Advance Consideration* that clarifies IAS 21 *The Effects of Changes in Foreign Exchange Rates*. The interpretation states the exchange rate on the date the transaction occurs is used when initially recognizing the related asset, expense, or income.

ATB is currently assessing the impact of adopting the interpretation, which can be applied either retrospectively in accordance with IAS 8 *Accounting Policies and Accounting Estimates*, or prospectively to all applicable transactions, and is effective for annual periods beginning on or after January 1, 2018, with early adoption permitted.

4. Financial Instruments

Classification and Carrying Value

The following tables summarize ATB's financial instrument classifications and provide their carrying value as at March 31:

As at March 31, 2017
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 314,300	$ -	$ -	$ 314,300(1)
Interest-bearing deposits with financial institutions	-	647,549	-	-	-	-	647,549(1)
Securities	-	4,984,678	-	-	-	-	4,984,678(1)
Securities purchased under reverse repurchase agreements	-	-	-	450,661	-	-	450,661(1)
Loans	-	-	-	-	-	-	-
Business	-	-	-	19,046,406	-	-	19,046,406
Residential mortgages	-	-	-	14,947,751	-	-	14,947,751
Personal	-	-	-	6,622,936	-	-	6,622,936
Credit card	-	-	-	703,817	-	-	703,817
Allowance for loan losses	-	-	-	(509,688)	-	-	(509,688)
	-	-	-	40,811,222	-	-	40,811,222(2)
Other	-	-	-	-	-	-	-
Derivative financial instruments	294,609	-	-	-	-	156,238	450,847
Other assets	-	-	-	70,789	-	-	70,789
	294,609	-	-	70,789	-	156,238	521,636(1)
Financial liabilities	-	-	-	-	-	-	-
Deposits	-	-	-	-	-	-	-
Personal	-	-	-	-	13,316,717	-	13,316,717
Business and other	-	-	-	-	20,611,043	-	20,611,043
	-	-	-	-	33,927,760	-	33,927,760(3)
Other	-	-	-	-	-	-	-
Wholesale borrowings	-	-	-	-	2,892,336	-	2,892,336(4)
Collateralized borrowings	-	-	-	-	6,812,660	-	6,812,660(5)
Derivative financial instruments	245,806	-	-	-	-	93,286	339,092(1)
Other liabilities	-	-	-	-	968,446	-	968,446(1)
	245,806	-	-	-	10,673,442	93,286	11,012,534
Subordinated debentures	-	-	-	-	344,441	-	344,441(6)

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $42,532,355.
[3] Fair value of deposits estimated to be $33,809,451.
[4] Fair value of wholesale borrowings estimated to be $2,909,481.
[5] Fair value of collateralized borrowings estimated to be $6,816,508.
[6] Fair value of subordinated debentures estimated to be $357,211.

As at March 31, 2016
($ in thousands)

	Carrying value						
	Held-for-trading assets and liabilities measured at fair value	Designated at fair value through net income	Available-for-sale instruments measured at fair value	Loans and receivables measured at amortized cost	Financial liabilities measured at amortized cost	Derivatives designated for hedge accounting	Total carrying value
Financial assets							
Cash	$ -	$ -	$ -	$ 310,844	$ -	$ -	$ 310,844[1]
Interest-bearing deposits with financial institutions	-	704,317	-	-	-	-	704,317[1]
Securities	-	3,747,323	182	-	-	-	3,747,505[1]
Securities purchased under reverse repurchase agreements	-	-	-	-	-	-	-[1]
Loans							
Business	-	-	-	19,199,157	-	-	19,199,157
Residential mortgages	-	-	-	14,318,656	-	-	14,318,656
Personal	-	-	-	6,614,996	-	-	6,614,996
Credit card	-	-	-	690,204	-	-	690,204
Allowance for loan losses	-	-	-	(472,856)	-	-	(472,856)
	-	-	-	40,350,157	-	-	40,350,157[2]
Other							
Derivative financial instruments	518,859	-	-	-	-	246,794	765,653
Other assets	-	-	-	78,023	-	-	78,023
	518,859	-	-	78,023	-	246,794	843,676[1]
Financial liabilities							
Deposits							
Personal	-	-	-	-	13,088,145	-	13,088,145
Business and other	-	-	-	-	17,774,144	-	17,774,144
	-	-	-	-	30,862,289	-	30,862,289[3]
Other							
Wholesale borrowings	-	-	-	-	5,047,744	-	5,047,744[4]
Collateralized borrowings	-	-	-	-	5,497,768	-	5,497,768[5]
Derivative financial instruments	517,433	-	-	-	-	55,651	573,084[1]
Other liabilities	-	-	-	-	1,174,823	-	1,174,823[1]
	517,433	-	-	-	11,720,335	55,651	12,293,419
Subordinated debentures	-	-	-	-	371,441	-	371,441[6]

[1] Fair value estimated to equal carrying value.
[2] Fair value of loans estimated to be $42,251,070.
[3] Fair value of deposits estimated to be $30,835,288.
[4] Fair value of wholesale borrowings estimated to be $5,102,899.
[5] Fair value of collateralized borrowings estimated to be $5,671,595.
[6] Fair value of subordinated debentures estimated to be $378,845.

Fair-Value Hierarchy

Financial instruments recorded at fair value in the Consolidated Statement of Financial Position are classified using a fair-value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair-value hierarchy has the following levels:

- Level 1 – Fair value based on quoted prices in active markets
- Level 2 – Fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices
- Level 3 – Fair value estimated using inputs not based on observable market data

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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The fair-value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified at the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The categories of financial instruments whose fair values are classified as Level 3 consist of investments made to a broad range of private Alberta companies. Valuation techniques are disclosed in note 7.

The following tables present the level within the fair-value hierarchy of ATB's financial assets and liabilities measured at fair value:

As at March 31, 2017 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 647,549	$ -	$ 647,549
Securities				
Designated at fair value through net income	4,978,406	-	6,272	4,984,678
Available for sale	-	-	-	-
Other assets				
Derivative financial instruments	-	450,847	-	450,847
Total financial assets	$ 4,978,406	$ 1,098,396	$ 6,272	$ 6,083,074
Financial liabilities				
Other liabilities				
Derivative financial instruments	212	338,880	-	339,092
Total financial liabilities	$ 212	$ 338,880	$ -	$ 339,092

As at March 31, 2016 *($ in thousands)*	Level 1	Level 2	Level 3	Total
Financial assets				
Interest-bearing deposits with financial institutions				
Designated at fair value through net income	$ -	$ 704,317	$ -	$ 704,317
Securities				
Designated at fair value through net income	3,306,234	-	441,089	3,747,323
Available for sale	-	-	182	182
Other assets				
Derivative financial instruments	-	765,653	-	765,653
Total financial assets	$ 3,306,234	$ 1,469,970	$ 441,271	$ 5,217,475
Financial liabilities				
Other liabilities				
Derivative financial instruments	-	573,084	-	573,084
Total financial liabilities	$ -	$ 573,084	$ -	$ 573,084

ATB performs a sensitivity analysis for fair-value measurements classified as Level 3, substituting one or more reasonably possible alternative assumptions for the unobservable inputs. These sensitivity analyses are detailed in note 7 for the other securities designated at fair value through net income.

The following tables present the changes in fair value of Level 3 financial instruments:

($ in thousands)		Securities available for sale		Securities designated at fair value through net income
Fair value as at March 31, 2016	$	182	$	441,089
Total realized and unrealized losses included in net income		(171)		(2,051)
Total realized and unrealized gains included in other comprehensive income		-		-
Purchases and issuances		-		6,272
Sales and settlements		(11)		(439,038)
Fair value as at March 31, 2017		-		6,272
Change in unrealized losses included in income with respect to financial instruments held as at March 31, 2017	$	(155)	$	(1,893)

($ in thousands)		Securities available for sale		Securities designated at fair value through net income
Fair value as at March 31, 2015	$	272	$	739,902
Total realized and unrealized gains included in net income		18		74,520
Total realized and unrealized gains included in other comprehensive income		115		-
Purchases and issuances		-		-
Sales and settlements		(223)		(373,333)
Fair value as at March 31, 2016	$	182	$	441,089
Change in unrealized gains included in income with respect to financial instruments held as at March 31, 2016	$	-	$	59,982

The Consolidated Statement of Income line item for net gains on financial instruments at fair value through net income includes realized and unrealized fair-value movements on all financial instruments designated at fair value and realized gains on securities available for sale.

Offsetting Financial Assets and Financial Liabilities

A financial asset or liability must be offset in the Consolidated Statement of Financial Position when, and only when, there is a legally enforceable right to set off the amounts and an intention to settle on a net basis or realize the asset and settle the liability simultaneously. A legally enforceable right exists when the right is enforceable in the normal course of business or in the event of default, insolvency, or bankruptcy.

Related amounts not offset in the Consolidated Statement of Financial Position include transactions where the following conditions apply:

- The counterparty has an offsetting exposure with ATB and a master netting or similar arrangement in place.
- Financial collateral has been received or pledged against the transactions described below.

Securities purchased under reverse repurchase agreements subject to master netting arrangements or similar arrangements and derivative assets and liabilities subject to the master netting agreements of the International Swaps and Derivatives Association (ISDA) do not meet the criteria for offsetting in the Consolidated Statement of Financial Position, as the ability to offset is only enforceable in the event of default, insolvency, or bankruptcy.

ATB receives and pledges collateral in the form of cash and marketable securities relating to its derivative assets and liabilities to manage credit risk in accordance with the terms and conditions of the ISDA credit support annex.

The following tables present information about financial assets and liabilities that are set off and not set off in the Consolidated Statement of Financial Position and are subject to a master netting agreement or similar arrangement:

As at March 31, 2017 *($ in thousands)*	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position		Net amount
				Financial instruments[1]	Financial collateral received/pledged	
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ 450,661	$ -	$ 450,661	$ -	$ -	$ 450,661
Derivative financial instruments	450,847	-	450,847	245,607	126,776	78,464
Amounts receivable from clients and financial institutions	25,779	-	25,779	13,332	-	12,447
	$ 927,287	$ -	$ 927,287	$ 258,939	$ 126,776	$ 541,572
Financial liabilities						
Derivative financial instruments	$ 339,092	$ -	$ 339,092	$ 245,607	$ -	$ 93,485
Amounts payable to clients and financial institutions	19,016	-	19,016	13,332	-	5,684
	$ 358,108	$ -	$ 358,108	$ 258,939	$ -	$ 99,169

As at March 31, 2016 *($ in thousands)*	Gross recognized amounts	Set-off amounts	Net amounts recognized in the Consolidated Statement of Financial Position	Related amounts not offset in the Consolidated Statement of Financial Position		Net amount
				Financial instruments[1]	Financial collateral received/pledged	
Financial assets						
Securities borrowed or purchased under reverse repurchase agreements	$ -	$ -	$ -	$ -	$ -	$ -
Derivative financial instruments	765,653	-	765,653	281,768	408,470	75,415
Amounts receivable from clients and financial institutions	37,048	-	37,048	10,259	-	26,789
	$ 802,701	$ -	$ 802,701	$ 292,027	$ 408,470	$ 102,204
Financial liabilities						
Derivative financial instruments	$ 573,084	$ -	$ 573,084	$ 281,768	$ -	$ 291,316
Amounts payable to clients and financial institutions	36,217	-	36,217	10,259	-	25,958
	$ 609,301	$ -	$ 609,301	$ 292,027	$ -	$ 317,274

[1] Carrying amount of financial assets and liabilities that are subject to a master netting agreement or similar arrangement but do not meet the offsetting criteria.

5. Financial Instruments – Risk Management

ATB has included certain disclosures required by IFRS 7 in shaded sections of the Management's Discussion and Analysis (MD&A). These shaded sections of the Risk Management section of the MD&A relating to credit, market, and liquidity risks are an integral part of the 2017 consolidated financial statements.

6. Cash Resources

Cash consists of cash on hand, bank notes and coins, non-interest-bearing deposits, and cash held at the Bank of Canada through the Large Value Transfer System. Interest-bearing deposits with other financial institutions have been classified as designated at fair value through net income, and are recorded at fair value. Interest income on interest-bearing deposits is recorded on an accrual basis. Cash has been classified as loans and receivables for financial instruments purposes as disclosed in note 4.

As at March 31, 2017, the carrying value of interest-bearing deposits with financial institutions consists of $647,549 (2016: $704,317) classified as designated at fair value through net income.

ATB has restricted cash that represents deposits held in trust in connection with ATB's securitization activities. These deposits include cash accounts that hold principal and interest payments collected from mortgages securitized through the mortgage-backed security program awaiting payment to their respective investors and deposits held in interest reinvestment accounts in connection with ATB's participation in the Canada Mortgage Bonds program. As at March 31, 2017, the amount of restricted cash is $103,260 (2016: $101,009).

7. Securities

The carrying value of securities by remaining term to maturity and net of valuation provisions is as follows:

As at March 31, 2017 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ -	$ -	$ -	$ -
Total securities available for sale	-	-	-	-
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial governments	2,531,366	2,447,040	-	4,978,406
Other securities	-	6,272	-	6,272
Commercial paper				
Third-party-sponsored ABCP	-	-	-	-
Bank-sponsored ABCP	-	-	-	-
Total securities measured at fair value through net income	2,531,366	2,453,312	-	4,984,678
Total securities	$ 2,531,366	$ 2,453,312	$ -	$ 4,984,678

As at March 31, 2016 *($ in thousands)*	Within 1 year	1–5 years	Over 5 years	Total carrying value
Securities available for sale				
Commercial paper				
Third-party-sponsored ABCP	$ 182	$ -	$ -	$ 182
Total securities available for sale	182	-	-	182
Securities measured at fair value through net income				
Issued or guaranteed by the Canadian federal or provincial governments	1,383,124	1,803,701	100,414	3,287,239
Other securities	18,995	-	-	18,995
Commercial paper				
Third-party-sponsored ABCP	412,018	-	-	412,018
Bank-sponsored ABCP	29,071	-	-	29,071
Total securities measured at fair value through net income	1,843,208	1,803,701	100,414	3,747,323
Total securities	$ 1,843,390	$ 1,803,701	$ 100,414	$ 3,747,505

Other Securities

These securities in the current year relate to investments made to a broad range of private Alberta companies. There is no observable market price for these investments as at the balance sheet date; accordingly, ATB estimated the fair value using a combination of discounted cash flows and market multiples derived from quoted prices of comparative companies, specifically the expected earnings before interest, income tax, depreciation, and amortization (EBITDA). The key assumptions in this model are the exit multiple of 4.0, the weighted average cost of capital of 30.0%, and the EBITDA multiple of 4.2 to 5.1. A 0.5 increase of the exit multiple, 1.0% decrease in the weighted average cost of capital, and 0.5 increase in the EBITDA multiple would increase the fair value by $680 (2016: nil). The estimate is also adjusted for the effect of the non-marketability of these investments.

Asset-Backed Commercial Paper (ABCP)

As at March 31, 2017, the carrying value of ABCP is nil (2016: $441,761). During the year, ATB received principal payments of $439,049 (2016: $373,556) and interest payments of $11,209 (2016: $5,554) on these investments.

8. Loans

Credit Quality

ATB's loan portfolio consists of the following:

As at March 31, 2017 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 19,046,406	$ 237,938	$ 127,031	$ 18,681,437
Residential mortgages	14,947,751	6,226	14,507	14,927,018
Personal	6,622,936	36,936	58,258	6,527,742
Credit card	703,817	-	28,792	675,025
Total	**$ 41,320,910**	**$ 281,100**	**$ 228,588**	**$ 40,811,222**

As at March 31, 2016 *($ in thousands)*	Gross loans	Allowances assessed Individually	Allowances assessed Collectively	Net carrying value
Business	$ 19,199,157	$ 230,218	$ 132,835	$ 18,836,104
Residential mortgages	14,318,656	3,382	7,000	14,308,274
Personal	6,614,996	32,120	41,071	6,541,805
Credit card	690,204	-	26,230	663,974
Total	$ 40,823,013	$ 265,720	$ 207,136	$ 40,350,157

The total net carrying value of the above loans includes loans denominated in U.S. funds, totalling $766,619 as at March 31, 2017 (2016: $908,076). As at March 31, 2017, the amount of foreclosed assets held for resale is $8,948 (2016: $6,087).

Loans Past Due

The following are loans past due but not impaired because they are less than 90 days past due or because it is otherwise reasonable to expect timely collection of principal and interest:

As at March 31, 2017 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 96,929	$ 315,414	$ 52,355	$ 32,975	$ 497,673
Over 1 month up to 2 months	108,176	85,822	45,627	10,441	250,066
Over 2 months up to 3 months	16,766	22,832	21,061	4,422	65,081
Over 3 months	3,013	21,192	3,050	8,540	35,795
Total past due but not impaired	**$ 224,884**	**$ 445,260**	**$ 122,093**	**$ 56,378**	**$ 848,615**

As at March 31, 2016 *($ in thousands)*	Residential mortgages	Business	Personal	Credit card[1]	Total
Up to 1 month	$ 115,165	$ 420,167	$ 59,796	$ 30,412	$ 625,540
Over 1 month up to 2 months	77,507	86,758	43,986	9,178	217,429
Over 2 months up to 3 months	24,954	23,752	17,677	4,155	70,538
Over 3 months	4,752	10,060	4,524	6,342	25,678
Total past due but not impaired	$ 222,378	$ 540,737	$ 125,983	$ 50,087	$ 939,185

[1] Consumer credit card loans are classified as impaired and written off when payments become 180 days past due. Business and agricultural credit card loans that become due for three consecutive billing cycles (approximately 90 days) are removed from the credit card portfolio and transferred into the applicable impaired loan category.

As at March 31, 2017, $282.5 million (2016: $352.5 million) of the total loans past due up to one month are one day overdue; of this total, $145.6 million (2016: $115.9 million) were paid the next business day.

Impaired Loans

Impaired loans, including the related allowances, are as follows:

As at March 31, 2017 *($ in thousands)*		Gross impaired loans		Allowances individually assessed		Net carrying value
Business	$	**424,295**	$	**237,938**	$	**186,357**
Residential mortgages		**81,165**		**6,226**		**74,939**
Personal		**82,789**		**36,936**		**45,853**
Total	$	**588,249**	$	**281,100**	$	**307,149**

As at March 31, 2016 *($ in thousands)*		Gross impaired loans		Allowances individually assessed		Net carrying value
Business	$	469,051	$	230,218	$	238,833
Residential mortgages		51,005		3,382		47,623
Personal		72,316		32,120		40,196
Total	$	592,372	$	265,720	$	326,652

9. Allowance for Loan Losses

The allowance for loan losses recorded in the Consolidated Statement of Financial Position is maintained at a level management considers adequate to absorb loan-related losses for all items in the loan portfolio.

The continuity of the allowance for loan losses is as follows:

As at March 31 *($ in thousands)*		2017		2016
Collectively assessed				
Balance at beginning of the year	$	**207,136**	$	77,829
Provision for loan losses		**21,452**		129,307
Balance at end of the year		**228,588**		207,136
Individually assessed				
Balance at beginning of the year	$	**265,720**	$	90,568
Write-offs and recoveries		**(186,961)**		(75,826)
Discount of cash flows on impaired loans		**(11,196)**		(7,274)
Provision for loan losses		**213,537**		258,252
Balance at end of the year		**281,100**		265,720
Total	$	**509,688**	$	472,856

10. Derivative Financial Instruments

Most of ATB's derivative contracts are over-the-counter (OTC) transactions that are privately negotiated between ATB and the counterparty to the contract. The remainder are exchange-traded contracts transacted through organized and regulated exchanges and consist primarily of options and futures. ATB uses the following derivative financial instruments:

Swaps

Swaps are transactions in which two parties agree to exchange defined cash flows. ATB uses the following types of swap contracts:

- Interest rate swaps are OTC contracts in which ATB exchanges fixed- and floating-rate interest payments with a counterparty based on an agreed notional principal amount denominated in a single currency. These are used in the corporate derivative portfolio to manage exposure to interest rate fluctuations, primarily arising from the investment, loan, and deposit portfolios. Interest rate swaps are also used in the client derivative portfolio to help our corporate customers in managing risks associated with interest rate fluctuations.
- Cross-currency swaps are foreign-exchange transactions in which ATB exchanges interest and principal payments in different currencies. These are used in both the corporate and client portfolio to manage ATB's and its corporate customers' foreign-exchange risk.

Forwards and Futures

Foreign-exchange or commodity forwards are OTC transactions in which two parties agree to either buy or sell a specified amount of a currency or commodity at a specific price and on a predetermined future date. ATB uses foreign-exchange forward contracts in both its corporate and client derivative portfolios to manage currency exposure, either arising from its own foreign-currency-denominated loans and deposits, or for its customers. Commodity forward contracts are used only in the client derivative portfolio.

Futures are contractual obligations to buy or sell an interest-rate-sensitive financial instrument on a predetermined future date at a specified price. Futures contracts are transacted in standardized amounts on regulated exchanges that are subject to daily cash margining used only in the corporate derivative portfolio.

The fair value of derivative financial instruments, segregated between contracts in a favourable position (i.e., having positive fair value) and contracts in an unfavourable position (i.e., having negative fair value) consists of the following:

As at March 31 *($ in thousands)*	2017 Favourable position	2017 Unfavourable position	2016 Favourable position	2016 Unfavourable position
Contracts ineligible for hedge accounting				
Interest rate contracts				
Swaps	$ 18,256	$ (23,875)	$ 53,803	$ (63,645)
Futures	-	(212)	-	-
Other	36,102	(28,770)	49,064	(35,015)
	54,358	(52,857)	102,867	(98,660)
Embedded derivatives				
Market-linked deposits	-	(1,835)	-	-
	-	(1,835)	-	-
Foreign-exchange contracts				
Forwards	11,582	(10,582)	35,952	(52,828)
Cross-currency swaps	65,221	(32,302)	30,819	(29,406)
Forward contracts				
Commodities	163,448	(148,230)	349,221	(336,539)
Total fair-value-ineligible contracts	240,251	(191,114)	415,992	(418,773)
Contracts eligible for hedge accounting				
Interest rate contracts				
Swaps	156,238	(93,286)	246,794	(55,651)
Total fair-value-eligible contracts	156,238	(93,286)	246,794	(55,651)
Total fair value	$ 450,847	$ (339,092)	$ 765,653	$ (573,084)
Less impact of master netting agreements	(245,607)	245,607	(281,768)	281,768
Less impact of financial institution counterparty collateral held/posted	(126,776)	-	(408,470)	-
Residual credit exposure on derivatives to ATB	$ 78,464	$ (93,485)	$ 75,415	$ (291,316)

The residual credit exposure presented above includes contracts with financial institution and client counterparties. For the residual amounts above, $78,464 (2016: $75,415) of the derivative asset and $57,133 (2016: $251,638) of the derivative liability exposure relates to client counterparties.

The amount of other comprehensive income expected to be reclassified to the Consolidated Statement of Income over the next 12 months on de-designated hedges is $1,648 (2016: $570). ATB has recognized an unrealized loss of $4,474 in profit and loss during the year (2016: unrealized gain of $7,067) relating to the fact that we had to account for ineffectiveness arising from its cash flow hedges.

The following table shows when hedged cash flows will be recognized in the Consolidated Statement of Income:

As at March 31, 2017 *($ in thousands)*	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash inflows	$ 288,333	$ 223,559	$ 183,622	$ 152,565	$ 106,334	$ 189,441	$ 1,143,854
Cash outflows	(337,109)	(282,564)	(245,794)	(209,403)	(150,068)	(371,572)	(1,596,510)
Net cash flows	$ (48,776)	$ (59,005)	$ (62,172)	$ (56,838)	$ (43,734)	$ (182,131)	$ (452,656)

As at March 31, 2016 *($ in thousands)*	Within 1 year	1-2 years	2-3 years	3-4 years	4-5 years	Over 5 years	Total
Cash inflows	$ 227,654	$ 190,410	$ 138,310	$ 108,797	$ 78,989	$ 160,708	$ 904,868
Cash outflows	(260,296)	(195,648)	(148,357)	(119,754)	(84,451)	(241,337)	(1,049,843)
Net cash flows	$ (32,642)	$ (5,238)	$ (10,047)	$ (10,957)	$ (5,462)	$ (80,629)	$ (144,975)

The non-trading interest rate risk, which is hedged with interest rate swaps, has a maximum maturity of 10 years as at March 31, 2017 (March 31, 2016: 10 years).

Term to Maturity

The notional amounts of derivative instruments represent the underlying principal amount to which the specified rate or price is applied in order to calculate the amount of cash flows to be exchanged and have varying maturity dates. Notional amounts do not represent assets or liabilities and are not recorded in the Consolidated Statement of Financial Position. The remaining contractual terms to maturity for the notional amounts of all derivative instruments are as follows:

			Residual term of contract				
As at March 31, 2017 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 3,881,306	$ 16,155,975	$ 1,685,000	$ 2,690,000	$ 11,741,881	$ 3,920,400	$ 20,037,281
Other	1,214,642	-	33,510	85,994	744,750	350,388	1,214,642
Embedded derivatives							
Market-linked deposits	422,857	-	-	-	422,857	-	422,857
Foreign-exchange contracts							
Forwards	2,110,742	-	1,775,632	80,598	230,295	24,217	2,110,742
Cross-currency swaps	2,016,983	-	-	113,573	673,935	1,229,475	2,016,983
Forward contracts							
Commodities	2,338,125	-	509,200	518,935	1,305,859	4,131	2,338,125
Exchange-traded contracts							
Interest rate contracts							
Futures	20,000	-	20,000	-	-	-	20,000
Total	$ 12,004,655	$ 16,155,975	$ 4,023,342	$ 3,489,100	$ 15,119,577	$ 5,528,611	$ 28,160,630

			Residual term of contract				
As at March 31, 2016 ($ in thousands)	Ineligible for hedge accounting	Eligible for hedge accounting	Within 3 months	3–12 months	1–5 years	Over 5 years	Total
Over-the-counter contracts							
Interest rate contracts							
Swaps	$ 8,312,364	$ 12,280,975	$ 2,336,000	$ 4,420,000	$ 10,976,339	$ 2,861,000	$ 20,593,339
Other	961,540	-	28,149	32,966	668,422	232,003	961,540
Embedded derivatives							
Market-linked deposits	-	-	-	-	-	-	-
Foreign-exchange contracts							
Forwards	2,292,874	-	1,619,569	606,234	67,071	-	2,292,874
Cross-currency swaps	353,265	-	-	-	86,217	267,048	353,265
Forward contracts							
Commodities	1,827,096	-	419,006	983,375	424,715	-	1,827,096
Exchange-traded contracts							
Interest rate contracts							
Futures	-	-	-	-	-	-	-
Total	$ 13,747,139	$ 12,280,975	$ 4,402,724	$ 6,042,575	$ 12,222,764	$ 3,360,051	$ 26,028,114

In addition to the notional amounts of derivative instruments shown above, ATB has certain foreign-exchange spot deals that settle in one day. These deals had notional amounts of $6,703 as at March 31, 2017 (2016: $433,125).

Derivative-Related Credit Risk

Derivative financial instruments traded in the OTC market are subject to credit risk of a financial loss occurring if a counterparty defaults on its contractual obligation. ATB's maximum credit risk in respect of such derivatives is the fair value of all derivatives where ATB is in a favourable position. ATB endeavours to limit its credit risk by dealing only with counterparties assessed to be creditworthy and manages the credit risk for derivatives using the same credit risk process applied to loans and other credit assets. Financial institution counterparties must have a minimum long-term public credit rating of A-low/A3/A- or better. The exposure to credit risk on derivatives is also reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce ATB's net exposure in respect of favourable contracts with the same counterparty.

The current replacement cost represents the cost of replacing, at current market rates, all contracts with a positive fair value to ATB. The credit equivalent amount is the sum of the current replacement cost and the potential future exposure, which is defined in a guideline authorized by the President of Treasury Board and Minister of Finance (the Minister), which was modelled after guidelines governing other Canadian deposit-taking institutions. The risk-weighted amount is determined by applying standard measures of counterparty credit risk to the credit equivalent amount. The derivative-related credit risks for derivative instruments are as follows:

	2017			2016		
As at March 31 ($ in thousands)	Replacement cost	Credit equivalent amount	Risk-adjusted balance	Replacement cost	Credit equivalent amount	Risk-adjusted balance
Contracts ineligible for hedge accounting						
Interest rate contracts						
Swaps	**$ 18,255**	**$ 23,396**	**$ 4,679**	$ 53,803	$ 75,510	$ 15,102
Other	**36,102**	**42,099**	**20,487**	49,064	55,886	27,140
Foreign-exchange contracts						
Forwards	**11,582**	**26,624**	**9,226**	35,952	61,563	19,397
Cross-currency swaps	**65,222**	**166,967**	**34,614**	30,819	42,047	12,644
Forward contracts						
Commodities	**163,297**	**289,429**	**89,741**	349,221	540,425	149,070
Contracts eligible for hedge accounting						
Interest rate contracts						
Swaps	**156,389**	**214,404**	**42,881**	246,794	322,884	64,577
Total	**$ 450,847**	**$ 762,919**	**$ 201,628**	$ 765,653	$ 1,098,315	$ 287,930

11. Property and Equipment

($ in thousands)	Leasehold improvements	Computer equipment	Buildings	Other equipment	Leasehold improvements under construction	Computer and other equipment under development	Buildings under finance lease	Land	Total
Cost									
Balance as at April 1, 2015	$ 229,889	$ 61,781	$ 101,006	$ 76,429	$ 16,346	$ 24,300	$ 199,568	$ 7,372	$ 716,691
Acquisitions	21,253	24,983	1,045	7,142	9,252	14,099	30,236	-	108,010
Disposals	(17,986)	-	(2,790)	(7,903)	(17,118)	(24,186)	-	(12)	(69,995)
Balance as at March 31, 2016	$ 233,156	$ 86,764	$ 99,261	$ 75,668	$ 8,480	$ 14,213	$ 229,804	$ 7,360	$ 754,706
Balance as at April 1, 2016	**$ 233,156**	**$ 86,764**	**$ 99,261**	**$ 75,668**	**$ 8,480**	**$ 14,213**	**$ 229,804**	**$ 7,360**	**$ 754,706**
Acquisitions	**10,186**	**13,846**	**2,263**	**4,174**	**2,208**	**9,048**	**27,769**	**-**	**69,494**
Disposals	**(6,160)**	**(15,435)**	**-**	**(912)**	**(8,387)**	**(13,638)**	**(11,373)**	**(32)**	**(55,937)**
Balance as at March 31, 2017	**$ 237,182**	**$ 85,175**	**$ 101,524**	**$ 78,930**	**$ 2,301**	**$ 9,623**	**$ 246,200**	**$ 7,328**	**$ 768,263**
Depreciation									
Balance as at April 1, 2015	$ 135,684	$ 29,744	$ 68,950	$ 48,924	$ -	$ -	$ 64,038	$ -	$ 347,340
Depreciation for the period	13,031	18,441	1,985	8,707	-	-	15,362	-	57,526
Disposals	(17,986)	-	(2,666)	(7,840)	-	-	-	-	(28,492)
Balance as at March 31, 2016	$ 130,729	$ 48,185	$ 68,269	$ 49,791	$ -	$ -	$ 79,400	$ -	$ 376,374
Balance as at April 1, 2016	**$ 130,729**	**$ 48,185**	**$ 68,269**	**$ 49,791**	**$ -**	**$ -**	**$ 79,400**	**$ -**	**$ 376,374**
Depreciation for the period	**13,819**	**20,253**	**2,084**	**8,988**	**-**	**-**	**17,751**	**-**	**62,895**
Disposals	**(6,160)**	**(15,435)**	**-**	**(885)**	**-**	**-**	**(11,276)**	**-**	**(33,756)**
Balance as at March 31, 2017	**$ 138,388**	**$ 53,003**	**$ 70,353**	**$ 57,894**	**$ -**	**$ -**	**$ 85,875**	**$ -**	**$ 405,513**
Carrying amounts									
Balance as at March 31, 2016	$ 102,427	$ 38,579	$ 30,992	$ 25,877	$ 8,480	$ 14,213	$ 150,404	$ 7,360	$ 378,332
Balance as at March 31, 2017	**$ 98,794**	**$ 32,172**	**$ 31,171**	**$ 21,036**	**$ 2,301**	**$ 9,623**	**$ 160,325**	**$ 7,328**	**$ 362,750**

For the year ended March 31, 2017, depreciation expense charged to the Consolidated Statement of Income for premises and equipment was $62,895 (2016: $57,526). No impairment write-downs were recognized during the year ended March 31, 2017 (2016: nil). A loss of $46 (2016: $144) was recognized during the year for the disposal of capital assets.

12. Software and Other Intangibles

($ in thousands)		Software		Software under development		Other intangibles		Total
Cost								
Balance as at April 1, 2015	$	373,899	$	41,686	$	2,125	$	417,710
Acquisitions		41,978		30,139		-		72,117
Disposals		-		(33,363)		(2,125)		(35,488)
Balance as at March 31, 2016	$	415,877	$	38,462	$	-	$	454,339
Balance as at April 1, 2016	$	**415,877**	$	**38,462**	$	**-**	$	**454,339**
Acquisitions		**62,496**		**34,812**		**193**		**97,501**
Disposals		**(22,386)**		**(35,689)**		**-**		**(58,075)**
Balance as at March 31, 2017	$	**455,987**	$	**37,585**	$	**193**	$	**493,765**
Amortization								
Balance as at April 1, 2015	$	135,161	$	-	$	2,125	$	137,286
Amortization for the period		48,278		-		-		48,278
Disposals		(72)		-		(2,125)		(2,197)
Balance as at March 31, 2016	$	183,367	$	-	$	-	$	183,367
Balance as at April 1, 2016	$	**183,367**	$	**-**	$	**-**	$	**183,367**
Amortization for the period		**58,149**		**-**		**18**		**58,167**
Disposals		**(22,385)**		**-**		**-**		**(22,385)**
Balance as at March 31, 2017	$	**219,131**	$	**-**	$	**18**	$	**219,149**
Carrying amounts								
Balance as at March 31, 2016	$	232,510	$	38,462	$	-	$	270,972
Balance as at March 31, 2017	$	**236,856**	$	**37,585**	$	**175**	$	**274,616**

For the year ended March 31, 2017, amortization expense charged to the Consolidated Statement of Income for software and intangibles was $58,167 (2016: $48,278). No impairment write-downs were recognized during the year ended March 31, 2017 (2016: nil).

13. Other Assets

Other assets consist of the following:

As at March 31 *($ in thousands)*		2017		2016
Prepaid expenses and other receivables	$	**179,874**	$	150,750
Accrued interest receivable		**49,835**		57,400
Other		**20,954**		21,348
Total	$	**250,663**	$	229,498

14. Deposits

Deposit balances consist of the following:

As at March 31, 2017 ($ in thousands)	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	
Personal	$ 8,466,127	$ 2,662,373	$ 1,329,614	$ 630,762	$ 104,926	$ 122,376	$ 539	$ 13,316,717
Business and other	15,470,885	4,514,071	231,297	224,830	68,246	29,636	72,078	20,611,043
Total	**$ 23,937,012**	**$ 7,176,444**	**$ 1,560,911**	**$ 855,592**	**$ 173,172**	**$ 152,012**	**$ 72,617**	**$ 33,927,760**

As at March 31, 2016 ($ in thousands)	Payable on demand	Payable on a fixed date						Total
		Within 1 year	1–2 years	2–3 years	3–4 years	4–5 years	Over 5 years	
Personal	$ 8,078,398	$ 3,486,165	$ 1,045,245	$ 306,340	$ 130,205	$ 41,781	$ 11	$ 13,088,145
Business and other	12,777,102	4,612,449	190,153	64,454	31,477	28,272	70,237	17,774,144
Total	$ 20,855,500	$ 8,098,614	$ 1,235,398	$ 370,794	$ 161,682	$ 70,053	$ 70,248	$ 30,862,289

The total deposits presented above include $1,403,736 (2016: $564,043) denominated in U.S. funds.

As at March 31, 2017, deposits by various departments and agencies of the Government of Alberta included in the preceding schedule totalled $108,863 (2016: $82,596).

The repayment of all deposits and wholesale borrowings, without limit, including accrued interest, is guaranteed by the Crown in right of Alberta in respect of which the Crown assesses an annual deposit guarantee fee payable by ATB. For the year ended March 31, 2017, the fee was $47,628 (2016: $47,653), with $42,778 (2016: $39,217) recorded to non-interest expenses for deposits and the remainder to net interest income for wholesale borrowings.

15. Collateralized Borrowings

Canada Mortgage Bonds (CMB) Program

ATB periodically securitizes insured residential mortgage loans by participating in the *National Housing Act* Mortgage-Backed Security (NHA MBS) program. Through the program, ATB bundles residential mortgage loans guaranteed by the Canada Mortgage and Housing Corporation (CMHC) into mortgage-backed securities (MBS). The MBS issued are sold to the Canada Housing Trust (CHT) as part of the Canada Mortgage Bonds (CMB) Program, or to third-party investors. CHT uses the proceeds of its bond issuance to finance the purchase of MBS issued by ATB. As an issuer of the MBS, ATB is responsible for advancing all scheduled principal and interest payments to CMHC, irrespective of whether or not the amounts have been collected on the underlying transferred mortgages. Amounts advanced but not recovered are ultimately recovered from the insurer. The sale of mortgage pools that comprise the MBS does not qualify for derecognition, as ATB retains the prepayment, credit, and interest rate risks associated with the mortgages, which represent substantially all of the risks and rewards. Also included in the collateralized borrowing liabilities are accrued interest, deferred transaction costs, and premiums and discounts, representing the difference between cash proceeds and the notional amount of the liability issued. Accrued interest on the collateralized borrowing liability is based on the CMB coupon for each respective series. At the time of the CMB coupon settlement, any excess or shortfall between the CMB coupon payment and interest accumulated with swap counterparties is received or paid by ATB.

There are no expected credit losses on the securitized mortgage assets, as the mortgages are insured against default. Further, the investors and CMHC have no recourse to other assets of ATB in the event of failure of debtors to pay when due.

As part of a CMB transaction, ATB must enter into a total return swap with highly rated counterparties, exchanging cash flows of the CMB for those of the MBS transferred to CHT. Any excess or shortfall in these cash flows is absorbed by ATB. These swaps are not recognized on ATB's Consolidated Statement of Financial Position, as the underlying cash flows of these derivatives are captured through the continued recognition of the mortgages and their associated CMB collateralized borrowing liabilities. Accordingly, these swaps are recognized on an accrual basis and are not fair-valued through ATB's Consolidated Statement of Income. The notional amount of these swaps as at March 31, 2017, is $6,374,994 (2016: $5,011,723).

Collateralized borrowing liabilities are non-amortizing liabilities with fixed maturity dates. Principal payments collected from the mortgages underlying the MBS sold to the CHT are transferred to the CHT monthly, where they are either reinvested in new MBS or invested in eligible investments. To the extent that these eligible investments are not ATB's own issued MBS, the investments are recorded on ATB's Consolidated Statement of Financial Position as securities measured at fair value through net income. The amount of investments as at March 31, 2017, is nil (2016: nil).

Credit Card Securitization

ATB entered into a program with another financial institution to securitize credit card receivables to obtain additional funding. This program allows ATB to borrow up to 85% of the amount of credit card receivables pledged. The secured credit card receivables remain on ATB's Consolidated Statement of Financial Position and have not been transferred, as they do not qualify for derecognition. Should the amount securitized not adequately support the program, ATB will be responsible for funding this shortfall.

The following table presents the carrying amount of ATB's residential mortgage loans, credit card receivables, and assets pledged as collateral for the associated liability recognized in the Consolidated Statement of Financial Position:

As at March 31 *($ in thousands)*		2017		2016
Principal value of mortgages pledged as collateral	$	6,099,603	$	4,773,222
ATB mortgage-backed securities pledged as collateral through repurchase agreements		365,706		232,629
Principal value of credit card receivables pledged as collateral		606,544		584,729
Total	$	7,071,853	$	5,590,580
Associated liabilities	$	6,812,660	$	5,497,768

16. Other Liabilities

Other liabilities consist of the following:

As at March 31 *($ in thousands)*	Note	2017	2016
Accounts payable and accrued liabilities		$ **667,804**	$ 907,278
Accrued interest payable		**103,627**	97,514
Accrued pension-benefit liability	19	**89,286**	92,834
Due to clients, brokers, and dealers		**75,773**	58,333
Achievement notes	24	**54,555**	59,222
Deposit guarantee fee payable		**47,628**	47,653
Payment in lieu of tax payable	20	**45,038**	32,298
Total		$ **1,083,711**	$ 1,295,132

17. Subordinated Debentures

ATB privately places debentures with the Crown in right of Alberta. These debentures are subordinated to deposits and other liabilities and are unsecured, non-convertible, non-redeemable, and non-transferable. They bear a fixed rate of interest payable semi-annually. The outstanding subordinated debentures were issued with an original term of five years.

As detailed in note 20, since March 31, 2011, ATB has issued subordinated debentures annually to settle the outstanding liability for ATB's payment in lieu of tax for each fiscal year.

Subordinated debentures consist of the following:

As at March 31 *($ in thousands)* Maturity date	Interest rate	2017	2016
June 30, 2016	3.6%	$ -	$ 59,298
June 30, 2017	3.3%	**58,280**	58,280
June 30, 2018	3.4%	**73,122**	73,122
June 30, 2019	2.8%	**82,564**	82,564
June 30, 2020	3.0%	**98,177**	98,177
June 30, 2021	2.3%	**32,298**	-
Total		$ **344,441**	$ 371,441

18. Salaries and Benefits

The following table discloses the amounts earned by board members and key senior executives in the year ended March 31, 2017:

($ in thousands)	2017								2016
		Incentive plan							
	Base salary[1]	Short-term[2]	Long-term[3]	Other cash benefits[4]	Other non-cash benefits[5]	Subtotal	Retirement and other post-employment benefits[6]	Total	Total
Brian Hesje Chair of the Board	$ 63	$ -	$ -	$ -	$ -	$ 63	$ -	$ 63	$ 62
Board members[7]	410	-	-	-	-	410	-	410	383
Dave Mowat[8][9] President and Chief Executive Officer	502	660	921	22	14	2,119	(532)	1,587	3,671
Curtis Stange[10] Chief Customer Officer	336	239	447	15	11	1,048	77	1,125	1,054
Robert McGee Chief Financial Officer and Head of Operations	365	270	371	15	14	1,035	67	1,102	866
Wellington Holbrook[10][11] Chief Transformation Officer	315	238	356	3	16	928	75	1,003	973
Robert Mann Chief Risk Officer	284	140	236	7	24	691	93	784	823
Peggy Garritty[12] Chief Reputation and Brand Officer	266	131	239	15	10	661	49	710	676
Lorne Rubis[10][11] Chief Evangelist	286	141	273	1	16	717	60	777	789
Elizabeth Stretch[10][13] Chief People Officer	83	42	64	-	6	195	13	208	-
Robert Bennett Executive Vice-President, RFS	276	224	247	12	22	781	45	826	807
Teresa Clouston[10][14] Executive Vice-President, B&Ag	139	123	107	4	9	382	18	400	-
Chris Turchansky President, ATB Investor Services	276	189	259	4	21	749	65	814	733
Jonathan Horsman[15] Executive Managing Director and Head, CFS Financial Service Groups	113	80	83	5	9	290	10	300	-
Tim Gillespie[15] Executive Managing Director and Head, CFS Client Solution Groups	114	82	82	4	9	291	11	302	-
Ian Wild[16] Executive Vice-President, CFS	167	145	180	1,377	8	1,877	61	1,938	877

[1] Base salary consists of all regular base pay earned.

[2] Short-term incentive plan pay is accrued based on goal attainment for the fiscal year but is paid after the fiscal year-end.

[3] Long-term incentive plan pay is earned in the year, though payment is deferred for up to 36 months and depends on the employee's continued employment with ATB. The actual amount each employee receives appreciates or depreciates each year from the amount reported above based on ATB's actual financial performance over the next three fiscal years.

[4] Other cash benefits consist of perquisite allowances, severance, and other direct cash remuneration.

[5] Other non-cash benefits consist of ATB's share of employee benefits and contributions or payments made on behalf of employees.

[6] The retirement and other post-employment benefits are largely unfunded obligations and are paid from operating revenues as they come due. None of these costs represent cash payments in the period; they represent the period expense for future payments. These benefit costs represent the actuarially estimated cost incurred in the year ended March 31, 2017.

[7] The board consists of 11 members plus the chair, whose remuneration is disclosed separately.

[8] The incumbent has agreed to terminate the original post-employment benefit plan and instead participate in an individual registered pension plan and a supplemental retirement plan that will be retroactively implemented in 2017 for all prior employment service. This enables ATB to reduce its costs substantially.

[9] The prior year total has been adjusted to reflect a correction in the calculation for the benefit in place at March 31, 2016.

[10] A reorganization occurred in September 2016. A number of senior executives changed positions and four executives were added to the team.

[11] The current incumbent occupied this position for seven months during the fiscal year.

[12] The position of chief reputation and brand officer was established in fiscal 2017 with the position previously being senior vice-president, Reputation and Brand.

[13] Two incumbents occupied this position during fiscal 2017. Amounts presented are for the current incumbent who occupied this position for four months during the fiscal year. The prior incumbent moved to the position of chief evangelist.

[14] Two incumbents occupied this position during fiscal 2017. Amounts presented are for the current incumbent who occupied this position for seven months during the fiscal year. The prior incumbent moved to the position of chief transformation officer.

[15] The positions of executive managing director and head, Corporate Financial Services, were established in fiscal 2017. The current incumbents occupied these positions for six months during fiscal 2017.

[16] The incumbent in this role occupied this position for the first six months of fiscal 2017.

Retirement and Other Post-Employment Benefits

Retirement and other post-employment benefits presented in the Salaries and Benefits table reflect the period expense for pension and other post-employment benefit (OPEB) rights to future compensation. Executive officers may receive such benefits through participation in either the defined benefit (DB) or defined contribution provisions of ATB's registered pension plan (the ATB Plan) or the non-registered notional supplemental plan together with participation in the non-registered DB supplemental retirement plan (SRP), or through other supplemental post-retirement benefit arrangements. (Refer to note 19.)

	2017					2016
($ in thousands)	Registered plan service cost	Supplemental and other post-employment benefit service costs[1]	Notional Plan service costs	Interest and other costs[2]	Total	Total
Dave Mowat[3][4] President and Chief Executive Officer	$ 64	$ 751	$ -	$ (1,347)	$ (532)	$ 1,776
Curtis Stange Chief Customer Officer	6	-	61	10	77	70
Robert McGee Chief Financial Officer and Head of Operations	6	-	59	2	67	27
Wellington Holbrook Chief Transformation Officer	6	-	59	10	75	71
Robert Mann Chief Risk Officer	10	19	13	51	93	144
Peggy Garritty Chief Reputation and Brand Officer	11	-	36	2	49	34
Lorne Rubis Chief Evangelist	8	-	45	7	60	56
Elizabeth Stretch Chief People Officer	8	-	2	3	13	-
Robert Bennett Executive Vice-President, Retail Financial Services	8	-	29	8	45	59
Teresa Clouston Executive Vice-President, Business and Agriculture	8	-	9	1	18	-
Chris Turchansky President, ATB Investor Services	8	-	48	9	65	60
Jonathan Horsman Executive Managing Director and Head, Corporate Financial Services Financial Service Groups	5	-	4	1	10	-
Tim Gillespie Executive Managing Director and Head, Corporate Financial Services Client Solution Groups	5	-	4	2	11	-
Ian Wild Executive Vice-President, Corporate Financial Services	9	19	10	23	61	132

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[1] As the SRP and the OPEB provided are unfunded obligations and are paid from operating revenues as they come due, none of the SRP and OPEB costs represent cash payments in the period; they represent the period expense for rights to future payments. These benefit costs also represent the total estimated cost incurred in the year ended March 31, 2017, to provide annual pension income over an actuarially determined post-employment period.

[2] Interest and other costs include the notional return granted on the total notional plan outstanding balance. For the president and chief executive officer, this includes the cumulative impact of the change in obligation due to the change in the retirement benefit plans.

[3] The incumbent has agreed to terminate the original post-employment benefit plan and instead participate in an individual registered pension plan and a supplemental retirement plan that will be retroactively implemented in 2017 for all prior employment service.

[4] The prior year total has been adjusted to reflect a correction in the calculation for the benefit in place at March 31, 2016.

The accrued SRP and OPEB obligation for each executive is as follows:(1)

($ in thousands)		Accrued obligation March 31, 2016		Change in accrued obligation(2)		Accrued obligation March 31, 2017
Dave Mowat(2)(3)(4)						
President and Chief Executive Officer	$	9,723	$	(394)	$	**9,329**
Robert Mann						
Chief Risk Officer		1,293		41		**1,334**
Ian Wild						
Executive Vice-President, Corporate Financial Services		1,079		(1,079)		-

[1] All other disclosed executives do not participate in the SRP.

[2] For the president and chief executive officer, the change in the accrued obligation is primarily a result of changing the benefit in place for other post-employment benefits to participation in an individual registered plan along with a supplemental retirement plan. For the chief risk officer, the change in the accrued obligation is primarily as a result of the service cost and a decrease in discount rates from 3.9% to 3.8%, offset by experience as a result of his retirement. The executive vice-president, Corporate Financial Services, was paid his entitled SPP pension benefits as a lump sum during the fiscal year upon his retirement.

[3] The incumbent has agreed to terminate the original post-employment benefit plan and instead participate in an individual registered pension plan and a supplemental retirement plan that will be retroactively implemented in 2017 for all prior employment service.

[4] The prior year total has been adjusted to reflect a correction in the calculation for the benefit in place at March 31, 2016. The accrued obligation increased from $5,155 to $9,723 and the change has been reflected in the current year's Consolidated Statement of Income.

19. Employee Benefits

Public Service Pension Plan (PSPP)

The PSPP is a multi-employer pension plan for eligible employees of the Province of Alberta, approved provincial agencies, and public bodies. The Minister is the legal trustee for the plan and, accordingly, Alberta Treasury Board and Finance is the manager of the plan. The plan is governed by the Public Service Pension Board.

The plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the year's maximum pensionable earnings and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*.

As a participant in this plan, ATB and its participating employees are responsible for making current service contributions sufficient to provide for the accruing service of members and the amortization of any unfunded liability. ATB's share of the current service contributions (employer and employee) is based on the current pensionable earnings of active ATB participants (prorated against the total current pensionable earnings of all active PSPP members). The employer and employee share the required contributions 50/50.

Although the PSPP pools all assets and liabilities of participating employers and there is no allocation of assets and liabilities to participating employers, in order to recognize an estimate of its current liability under this plan, ATB has applied defined benefit (DB) accounting. ATB has estimated its share of the fair value of assets, the DB obligation, and the net pension liability as at March 31, 2017, based on its pro rata share of contributions into the plan, adjusted for its pro rata contribution rate (split 50/50 between employer and employee). ATB reassesses and discloses the estimated value of this liability annually.

Registered Pension Plan

ATB provides its management employees with a registered pension plan (the ATB Plan) with either DB or defined contribution (DC) provisions. The DB component provides benefits based on members' years of service and earnings. The DC component provides annual contributions based on members' earnings.

ATB has amended the ATB Plan to change the annual contributions in the DC component effective January 1, 2015, and to close the DB component to future service accruals effective July 7, 2016. Current members in the DB component will continue to accrue earnings for their highest average earnings calculations and service for early retirement subsidies, but effective July 8, 2016, will accrue future benefits under the DC component. Effective July 8, 2016, all new entrants into the ATB Plan automatically go into the DC component.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONTINUED

Effective July 15, 2006, ATB finalized arrangements with the Government of Alberta to assume pension obligations relating to current ATB employees who participated in the PSPP prior to joining the ATB Plan (the PSPP take-on). The arrangements formalized ATB's commitment to providing combined pensionable service (CPS) benefits for qualifying members whose CPS benefits were affected by the withdrawal of ATB from the Management Employees Pension Plan.

Following the execution of this agreement, certain assets and liabilities were transferred from the PSPP into the ATB Plan in respect of all member employees promoted to management positions between January 1, 1994, and December 31, 2005, who were active in the plan on July 15, 2006. From 2007 to 2015, there were annual transfers of obligations and assets in respect of employees promoted to management in the prior year. The Transfer Agreement was terminated June 27, 2014, with the final transfer occurring in 2015. After this period, any promotion to management positions will join the plan under the DC provision and any pension benefit earned in the PSPP will be deferred at Alberta Pension Services (APS) or if eligible the employee may choose to withdraw their pension benefit.

Non-Registered Plans

ATB also provides a non-registered DB supplemental retirement plan (SRP) and other post-employment benefits (OPEB) for designated management employees. The SRP provides benefits based on members' years of service and earnings over the Canada Revenue Agency maximum pension limits.

Plan Risks

The DB plans expose ATB to actuarial risks, such as longevity risk, currency risk, interest rate risk, and market risk. ATB, in conjunction with the Human Resources Committee and Retirement Committee, manages risk through the plan's Statement of Investment Policies and Procedures and Pension Investment Risk Management Policy, which:

- Establishes allowable and prohibited investment types
- Sets diversification requirements
- Limits portfolio mismatch risk through an asset allocation policy
- Limits market risks associated with the underlying fund assets

Breakdown of Defined Benefit Obligation

The breakdown of the DB obligations for each plan is as follows:

As at March 31		2017				
($ in thousands)		Registered plan		Supplemental and other		ATB's share of PSPP
Active	$	164,693	$	9,118	$	144,540
Deferred		21,262		955		38,702
Pensioners and beneficiaries		225,517		6,180		118,376
Total defined benefit obligation	$	411,472	$	16,253	$	301,618

As at March 31		2016				
($ in thousands)		Registered plan		Supplemental and other		ATB's share of PSPP
Active	$	227,674	$	10,976	$	145,927
Deferred		20,999		920		39,073
Pensioners and beneficiaries		146,299		4,908		119,511
Total defined benefit obligation	$	394,972	$	16,804	$	304,511

Breakdown of Plan Assets

A breakdown of plan assets for the ATB Plan is as follows:

As at March 31 *($ in thousands)*	2017 Non-quoted on an active market	2017 Quoted on an active market	2016 Non-quoted on an active market	2016 Quoted on an active market
Bonds				
Provinces, municipal corporations, and other public administrations	$ -	$ **89**	$ -	$ 86
Other issuers	-	**249,467**	-	253,306
Shares	-	**170,600**	-	150,638
Cash and money market securities	-	**(442)**	-	1,516
Total fair value of plan assets	**$ -**	**$ 419,714**	**$ -**	**$ 405,546**

Asset/Liability Matching Strategy

The investment policy is reviewed each year. The current policy is to match those assets in respect of inactive members with a matching fixed-income portfolio. For active members with liabilities that have other variables such as salary growth, assets are not matched but an equity-centric portfolio is held (70% benchmark in equities). A more in-depth asset/liability study is conducted every three to five years, whereby the investment policy is reviewed in more detail.

Cash Payments

For the year ended March 31, 2017, total cash paid or payable for employee benefits—cash contributed by ATB in respect of the DB and DC provisions of the ATB Plan, cash payments made directly to beneficiaries for the unfunded SRP, and cash contributed to the PSPP—was $44,236 (2016: $48,498).

Contributions expected during the upcoming year are $4,515 (2016: $4,076) for the DB portion of the ATB plan, $361 (2016: $286) for the unfunded SRP and CPS, and $14,238 (2016: $14,901) for the PSPP.

Pension Plan Obligation Maturity Profile

For 2017, the weighted-average financial duration of the main group plans was approximately 17 years (2016: 17 years).

Net Accrued Benefit Liability

The funded status and net accrued pension-benefit liability for the DB provisions of the ATB Plan and the other pension obligations, which include the PSPP, SRP, obligations recognized in respect of the CPS benefit obligation to inactive plan members, and OPEB, consist of the following:

As at March 31 *($ in thousands)*	2017	2016
Registered plan		
Fair value of plan assets	$ **419,714**	$ 405,546
Projected benefit obligation	**(411,472)**	(394,472)
Net pension-benefit asset[1]	$ **8,242**	$ 11,074
Supplemental and other		
Unfunded projected benefit obligation, representing the plan funding deficit	$ **(16,253)**	$ (16,804)
Net pension-benefit liability[1]	$ **(16,253)**	$ (16,804)
ATB's share of PSPP		
Fair value of plan assets	$ **226,682**	$ 218,832
Projected benefit obligation	**(301,618)**	(304,511)
Net pension-benefit liability[1]	$ **(74,936)**	$ (85,679)
Notional supplemental plan liability	$ **(6,339)**	$ (1,426)
Total net pension-benefit liability[1],[2]	$ **(82,947)**	$ (92,834)

[1] Effect of asset limitation and IAS minimum funding requirements is nil.

[2] There are no unrecognized actuarial gains/losses and past-service costs.

The net accrued benefit liability is included in other liabilities in the Consolidated Statement of Financial Position as appropriate. (Refer to note 16.)

Other Comprehensive Income

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31 *($ in thousands)*	2017	2016	2017	2016	2017	2016
Actuarial (gain) loss on plan assets	$ **(13,199)**	$ 20,319	$ **-**	$ -	$ **4,490**	$ 23,671
Effect of changes in demographic assumptions	**-**	-	**(236)**	(202)	**-**	-
Effect of changes in financial assumptions	**1,337**	(17,857)	**468**	(346)	**4,151**	(8,424)
Experience loss (gain) on plan liabilities	**16,422**	(873)	**196**	452	**(22,180)**	(9,307)
Amount recognized in other comprehensive loss	$ **4,560**	$ 1,589	$ **428**	$ (96)	$ **(13,539)**	$ 5,940
Beginning balance, accumulated other comprehensive loss	**62,617**	61,028	**4,250**	4,346	**13,704**	7,764
Ending balance, accumulated other comprehensive loss	$ **67,177**	$ 62,617	$ **4,678**	$ 4,250	$ **165**	$ 13,704

Change in Plan Assets and Benefit Obligations

Changes in the estimated financial position of the DB provisions of the ATB Plan, the PSPP, and the SRP and OPEB obligations are as follows:

As at March 31 *($ in thousands)*	Registered plan		Supplemental and other		ATB's share of PSPP	
	2017	2016	2017	2016	2017	2016
Change in fair value of plan assets						
Fair value of plan assets at beginning of the year	$ **405,546**	$ 414,975	$ **-**	$ -	$ **218,832**	$ 229,582
Contributions from ATB	**3,083**	9,107	**2,785**	1,441	**13,756**	14,397
Contributions from employees	**262**	937	**-**	-	**-**	-
Interest income	**15,614**	15,435	**-**	-	**8,643**	8,577
Actuarial gain (loss) on plan assets	**13,892**	(19,538)	**-**	-	**(4,490)**	(23,671)
Benefits paid	**(16,870)**	(13,541)	**(2,785)**	(1,441)	**(10,059)**	(10,053)
Actual plan expenses	**(1,813)**	(1,829)	**-**	-	**-**	-
Fair value of plan assets at end of the year	$ **419,714**	$ 405,546	$ **-**	$ -	$ **226,682**	$ 218,832
Change in defined benefit obligation						
Projected benefit obligation at beginning of the year	$ **394,472**	$ 406,543	$ **16,804**	$ 16,590	$ **304,511**	$ 308,355
Effect of changes in demographic assumptions	**-**	-	**(236)**	(202)	**-**	-
Effect of changes in financial assumptions	**1,337**	(17,857)	**468**	(346)	**4,151**	(8,424)
Experience loss (gain) on plan liabilities	**16,422**	(873)	**196**	452	**(22,180)**	(9,307)
Current-service costs	**729**	4,423	**761**	1,142	**13,501**	12,703
Expenses paid	**-**	-	**-**	-	**-**	-
Contributions from employees	**262**	937	**-**	-	**-**	-
Past-service costs	**-**	-	**395**	-	**-**	-
Interest expense	**15,120**	14,840	**650**	609	**11,694**	11,237
Benefits paid	**(16,870)**	(13,541)	**(2,785)**	(1,441)	**(10,059)**	(10,053)
Defined benefit obligation at end of the year	$ **411,472**	$ 394,472	$ **16,253**	$ 16,804	$ **301,618**	$ 304,511
Net pension-benefit asset (liability)	$ **8,242**	$ 11,074	$ **(16,253)**	$ (16,804)	$ **(74,936)**	$ (85,679)

Defined Benefit Pension Expense

Benefit expense for the DB provisions of the ATB Plan and for the PSPP, SRP, and OPEB consists of the following:

As at March 31 *($ in thousands)*	Registered plan		Supplemental and other		ATB's share of PSPP	
	2017	2016	2017	2016	2017	2016
Current-service costs	$ **729**	$ 4,423	$ **761**	$ 1,142	$ **13,501**	$ 12,703
Past-service costs	**-**	-	**395**	-	**-**	-
Interest expense	**15,120**	14,840	**650**	609	**11,694**	11,237
Interest income	**(15,614)**	(15,435)	**-**	-	**(8,643)**	(8,577)
Administrative expenses and taxes	**1,120**	1,200	**-**	-	**-**	-
Net pension-benefit expense recognized	$ **1,355**	$ 5,028	$ **1,806**	$ 1,751	$ **16,552**	$ 15,363

Key Assumptions and Sensitivities

The significant assumptions used in the actuarial determination of projected benefit obligations and the related net benefit expense are, on a weighted-average basis, as follows:

	Registered plan		Supplemental and other		ATB's share of PSPP	
	2017	2016	2017	2016	2017	2016
Accrued benefit obligation as at March 31						
Discount rate at end of the year	**3.8%**	3.9%	**3.8%**	3.9%	**3.8%**	3.9%
Rate of compensation increase[1]	**3.8%**	3.5%	**3.8%**	3.5%	**3.8%**	3.5%
Defined benefit expense for the year ended March 31						
Discount rate at beginning of the year	**3.9%**	3.7%	**3.9%**	3.7%	**3.9%**	3.7%
Rate of compensation increase[1]	**3.8%**	3.5%	**3.8%**	3.5%	**3.8%**	3.5%
ATB's share of PSPP contributions	**-**	-	**-**	-	**3.7%**	4.3%

[1] The long-term weighted average rate of compensation increase, including merit and promotion.

The following table outlines the possible impact of changes in certain key weighted-average economic assumptions used to measure the accrued pension-benefit obligations as at March 31, 2017, and the related expense for the year then ended:

	Registered plan		Supplemental and other		ATB's share of PSPP	
As at March 31, 2017 ($ in thousands)	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense	Benefit obligation	Benefit expense
Discount rate						
Impact of: 1.0% increase	$ (58,864)	$ (3,070)	$ (1,131)	$ 38	$ (47,791)	$ (4,366)
1.0% decrease	76,146	2,469	1,388	(56)	47,791	3,410
Inflation rate						
Impact of: 1.0% increase	33,893	1,414	89	2	19,795	2,052
1.0% decrease	(30,062)	(1,252)	(109)	(6)	(19,795)	(2,052
Rate of compensation increase						
Impact of: 0.25% increase	1,754	112	4	-	8,032	1,057
0.25% decrease	(1,704)	(110)	(13)	-	(8,032)	(1,057)
Mortality						
Impact of: 10.0% increase	(6,885)	(272)	(149)	(8)	N/A[1]	N/A[1]
10.0% decrease	7,544	296	160	9	N/A[1]	N/A[1]

[1] Mortality sensitivity information for the PSPP is not available.

This sensitivity analysis should be used with caution as it is hypothetical and the effect of changes in each significant assumption may not be linear. Also, the sensitivities in each key variable have been calculated independently of changes in other key variables, and actual experience may result in simultaneous changes to a number of key assumptions. Changes in one factor could result in changes to another that may serve to amplify or reduce certain sensitivities.

20. Payment in Lieu of Tax

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax is calculated as 23% of net income reported under IFRS.

As at March 31, 2017, ATB accrued a total of $45,038 (2016: $32,298) for payment in lieu of tax. The amount outstanding as at March 31, 2016, was settled on June 30, 2016, with ATB issuing a subordinated debenture to the Government of Alberta. (Refer to note 17.) The payment in lieu of tax will continue to be settled by issuing subordinated debentures until ATB's Tier 2 notional capital is eliminated. (Refer to note 25.)

21. Related-Party Transactions

In the ordinary course of business, ATB provides normal banking services to various departments and agencies of the Government of Alberta on terms similar to those offered to non-related parties. (Refer to note 14.) This year, these services also include OTC foreign-exchange forwards to manage currency exposure. (Refer to note 10.) The fair values of the asset and liability associated with these derivative contracts as at March 31, 2017, are nil (2016: $533) and $501 (2016: $392), respectively.

During the year, ATB leased certain premises from the Government of Alberta. For the year ended March 31, 2017, the total of these payments was $279 (2016: $286). ATB recognized a deposit guarantee fee payable to the Crown in right of Alberta in return for a guarantee on all customer deposits and a payment in lieu of tax. (Refer to notes 14 and 20.) ATB also has subordinated debt outstanding with the Crown in right of Alberta. (Refer to note 17.)

ATB entered into a wholesale borrowing agreement with the President of Treasury Board and Minister of Finance on November 24, 2003 (amended November 9, 2007). The agreement was amended again in December 2015 to increase the available limit of borrowings to $7.0 billion from $5.5 billion. Under this agreement, the Minister acts as fiscal agent of ATB under the *Financial Administration Act* and is involved in raising wholesale deposits in the marketplace. As at March 31, 2017, wholesale borrowings were $2.9 billion (2016: $5.0 billion) payable to the Minister.

Key management personnel are defined as those personnel having authority and responsibility for planning, directing, and controlling the activities of ATB, and are considered related parties. ATB provides loans to key management personnel, their close family members, and their related entities on market conditions, with the exception of banking products and services for key management personnel, which are subject to approved guidelines that govern all employees. As at March 31, 2017, $6,716 (2016: $3,948) in loans were outstanding. Key management personnel have deposits provided at standard market rates. As at March 31, 2017, $944 (2016: $684) in deposits were outstanding. No impairment losses were recorded against balances outstanding from key management personnel, and no specific allowances for impairment were recognized on balances with key management personnel and their close family members. Key management personnel compensation is disclosed in note 18.

Key management personnel may also purchase achievement notes based on their role within ATB. As at March 31, 2017, $2,545 (2016: $2,660) in achievement notes were outstanding to this group. $1,377 in termination payments (2016: nil) were made to key management personnel during the year.

22. Commitments, Guarantees, and Contingent Liabilities

Credit Instruments

In the normal course of business, ATB enters into various off-balance-sheet commitments to provide customers with sources of credit. These may include letters of credit, letters of guarantee and loan guarantees, and commitments to extend credit.

All of these credit arrangements are subject to ATB's normal credit standards, and collateral may be obtained where appropriate. The contract amounts represent the maximum credit risk exposure to ATB should the contracts be fully drawn and any collateral held prove to be of no value. As many of these arrangements will expire or terminate without being drawn upon, the contract amounts do not necessarily represent future cash requirements.

Letters of Credit

Standby letters of credit represent an irrevocable obligation to make payments to a third party if the customer cannot meet its financial or performance contractual obligations. In the event of a call on such commitments, ATB has recourse against the customer.

Documentary and commercial letters of credit require ATB to honour drafts presented by third parties upon completion of specific activities.

Guarantees

Guarantees also represent an irrevocable obligation to make payments to a third party in certain situations. Guarantees include contracts or indemnities that contingently require ATB to make payments (either in the form of some asset or in the form of services) to another party based on changes in an asset, liability, or equity the other party holds; failure of a third party to perform under an obligating agreement; or failure of a third party to pay its indebtedness when due. The term of these guarantees varies according to the contracts and normally does not exceed one year. In the event of a call on such commitments, ATB has recourse against the customer.

Commitments to Extend Credit

Commitments to extend credit represent undertakings by ATB to make credit available in the form of loans or other financing for specific amounts and maturities, subject to certain conditions, and include recently authorized credit not yet drawn down and credit facilities available on a revolving basis.

The amounts presented in the current and comparative year for commitments to extend credit include demand facilities of $14,631,357 (2016: $15,820,006). For demand facilities, ATB considers the undrawn portion to represent a commitment to the customer; however, the terms of the commitment allow ATB to adjust the credit exposure if circumstances warrant doing so. Accordingly, these demand facilities are considered to represent a lesser exposure than facilities with extended commitment terms. Credit facilities are contracted for a limited period of usually less than one year and may expire or terminate without being drawn upon. The contractual amounts of all such credit instruments are outlined in the table below:

As at March 31 *($ in thousands)*		2017		2016
Loan guarantees and standby letters of credit	$	**541,237**	$	493,231
Commitments to extend credit		**18,716,044**		18,801,048
Total	$	**19,257,281**	$	19,294,279

Pledged Assets

In the ordinary course of business, ATB grants a security interest in certain collateral (including securities, interest-bearing deposits with financial institutions, and loans and accounts) to the Bank of Canada in order to participate in clearing and payment systems and to have access to its facilities. ATB also pledges securities to Clearing and Depository Services Inc. in order to participate in a settlement-agent credit ring.

As at March 31 *($ in thousands)*		2017		2016
Assets pledged to:				
Bank of Canada	$	399,419	$	400,430
Clearing and Depository Services Inc.		16,000		16,000
Total	$	415,419	$	416,430

In addition to the amounts above, ATB has pledged assets relating to certain derivative contracts and collateralized borrowing. (Refer to notes 10 and 15.)

Indemnification Agreements

In the normal course of operations, ATB enters into various agreements that provide general indemnification to the other party. Examples of such agreements include service agreements, leasing agreements, clearing arrangements, and service contracts. These indemnifications may require ATB, in certain circumstances, to compensate the other party for costs incurred as a result of various contingencies. ATB also indemnifies directors and officers, to the extent permitted by law, against certain claims that may be made against them as a result of their services to the company. The terms of these indemnifications vary based on the contract, the nature of which prevents ATB from making a reasonable estimate of the maximum potential amount it could be required to pay to other parties. Historically, any such amounts have not been significant. No amount has been accrued in the Consolidated Statement of Financial Position in respect of such indemnifications.

Contingent Liabilities

Various actions and legal proceedings arising from the normal course of business are pending against ATB. Management does not consider the aggregate liability, if any, of these actions and proceedings to be material.

Contractual Obligations

ATB has various obligations under long-term non-cancellable contracts, which include service contracts and operating leases for buildings and equipment. The expected payments for such obligations for each of the next five fiscal years and thereafter are outlined as follows:

As at March 31 *($ in thousands)*		2017		2016
2017	$	-	$	73,432
2018		52,553		43,245
2019		38,270		30,228
2020		30,931		18,255
2021		23,178		15,089
2022		17,735		13,656
Thereafter		94,608		77,497
Total	$	257,275	$	271,402

The total expense for premises and equipment operating leases charged to the Consolidated Statement of Income for the year ended March 31, 2017, is $5,222 (2016: $6,424).

Finance Lease Commitments

The future minimum lease payments required under ATB's finance leases were as follows:

As at March 31 *($ in thousands)*	2017	2016
Future minimum lease payments:		
Not later than 1 year	$ 28,339	$ 28,265
Later than 1 year but not later than 5 years	118,254	116,552
Later than 5 years	181,624	205,617
Total future minimum lease payments	328,217	350,434
Less: finance charges not yet due	108,178	134,786
Present value of finance lease commitments	$ 220,039	$ 215,648

23. Interest Rate Risk

Interest Rate Gap Analysis

Gap analysis involves the allocation of interest-rate-sensitive assets and interest-rate-sensitive liabilities into categories according to their maturity or repricing date. Gaps can change significantly within a short period of time. The impact of changes in interest rates on net interest income will depend upon the size and rate of change in interest rates, the size and maturity of the total gap position, and management of these positions over time. ATB actively manages its interest rate gap position to protect net interest income while minimizing risk. The following table shows ATB's interest rate gap position as at March 31:

($ in thousands)	Term to maturity/repricing								
	Fixed rate within 3 months	Floating rate within 3 months	Within 3 months	3-12 months	Total within 1 year	1-5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2017									
Assets									
Cash resources and securities	$ -	$ 6,093,682	$ 6,093,682	$ 40,000	$ 6,133,682	$ -	$ -	$ 263,506	$ 6,397,188
Loans	5,376,600	18,001,517	23,378,117	4,192,082	27,570,199	12,550,805	794,161	(103,943)	40,811,222
Other assets	-	-	-	-	-	-	-	1,338,876	1,338,876
Derivative financial instruments[1]	-	-	6,466,426	1,128,520	7,594,946	6,919,291	2,874,000	-	17,388,237
Total	5,376,600	24,095,199	35,938,225	5,360,602	41,298,827	19,470,096	3,668,161	1,498,439	65,935,523
Liabilities and equity									
Deposits	17,502,111	397,028	17,899,139	4,836,986	22,736,125	4,060,505	361	7,130,769	33,927,760
Wholesale borrowings	500,000	-	500,000	500,000	1,000,000	900,000	1,000,000	(7,664)	2,892,336
Collateralized borrowings	101,574	1,341,831	1,443,405	-	1,443,405	3,177,186	2,203,716	(11,647)	6,812,660
Other liabilities	161,539	-	161,539	-	161,539	-	-	1,261,264	1,422,803
Subordinated debentures	58,280	-	58,280	-	58,280	286,161	-	-	344,441
Equity	-	-	-	-	-	-	-	3,147,286	3,147,286
Derivative financial instruments[1]	-	-	12,018,997	818,265	12,837,262	3,810,000	740,975	-	17,388,237
Total	18,323,504	1,738,859	32,081,360	6,155,251	38,236,611	12,233,852	3,945,052	11,520,008	65,935,523
Interest-rate-sensitive gap	$ (12,946,904)	$ 22,356,340	$ 3,856,865	$ (794,649)	$ 3,062,216	$ 7,236,244	$ (276,891)	$ (10,021,569)	
As percentage of assets	(19.6%)	33.9%	5.8%	(1.2%)	4.6%	11.0%	(0.42%)	(15.2%)	

[1] Derivative financial instruments are included in these tables at the notional amount.

($ in thousands)	Term to maturity/repricing								
	Fixed rate within 3 months	Floating rate within 3 months	Within 3 months	3-12 months	Total within 1 year	1-5 years	Over 5 years	Non-interest-rate-sensitive	Total
As at March 31, 2016									
Assets									
Cash resources and securities	$ 20,000	$ 4,605,509	$ 4,625,509	$ -	$ 4,625,509	$ -	$ -	$ 137,157	$ 4,762,666
Loans	5,746,187	17,939,111	23,685,298	3,720,943	27,406,241	12,294,751	725,061	(75,896)	40,350,157
Other assets	-	-	-	-	-	-	-	1,644,455	1,644,455
Derivative financial instruments[1]	-	-	3,576,476	1,527,000	5,103,476	5,640,000	1,626,000	-	12,369,476
Total	5,766,187	22,544,620	31,887,283	5,247,943	37,135,226	17,934,751	2,351,061	1,705,716	59,126,754
Liabilities and equity									
Deposits	15,208,148	329,852	15,538,000	5,536,936	21,074,936	2,802,276	11	6,985,066	30,862,289
Wholesale borrowings	1,559,930	400,000	1,959,930	700,000	2,659,930	2,100,000	300,000	(12,186)	5,047,744
Collateralized borrowings	270,157	1,028,996	1,299,153	199,600	1,498,753	2,479,042	1,518,655	1,318	5,497,768
Other liabilities	433,041	-	433,041	-	433,041	-	-	1,435,175	1,868,216
Subordinated debentures	59,298	-	59,298	-	59,298	312,143	-	-	371,441
Equity	-	-	-	-	-	-	-	3,109,820	3,109,820
Derivative financial instruments[1]	-	-	8,577,501	622,000	9,199,501	2,405,000	764,975	-	12,369,476
Total	17,530,574	1,758,848	27,866,923	7,058,536	34,925,459	10,098,461	2,583,641	11,519,193	59,126,754
Interest-rate-sensitive gap	$ (11,764,387)	$ 20,785,772	$ 4,020,360	$ (1,810,593)	$ 2,209,767	$ 7,836,290	$ (232,580)	$ (9,813,477)	
As percentage of assets	(19.9%)	35.2%	6.8%	(3.1%)	3.7%	13.3%	(0.4%)	(16.6%)	

[1] Derivative financial instruments are included in these tables at the notional amount.

The effective yield represents the weighted-average effective yield based on the earlier of contractual repricing and maturity dates. The weighted-average effective yield for each class of financial asset and liability is shown below:

(%)	Within 3 months	3-12 months	Total within 1 year	1-5 years	Over 5 years	Total
As at March 31, 2017						
Total assets	2.7%	2.8%	2.7%	2.7%	2.5%	2.7%
Total liabilities and equity	0.9%	1.1%	1.0%	1.1%	2.2%	1.1%
Interest-rate-sensitive gap	1.8%	1.7%	1.7%	1.6%	0.3%	1.6%

(%)	Within 3 months	3-12 months	Total within 1 year	1-5 years	Over 5 years	Total
As at March 31, 2016						
Total assets	2.8%	2.7%	2.8%	2.9%	3.0%	2.9%
Total liabilities and equity	0.8%	1.4%	0.9%	1.0%	2.3%	1.0%
Interest-rate-sensitive gap	2.0%	1.3%	1.9%	1.9%	0.7%	1.9%

Interest Rate Sensitivity

The following table provides the potential impact of an immediate and sustained 100- and 200-basis-point increase and decrease, respectively, in interest rates on ATB's net income:

As at March 31 ($ in thousands)	2017	2016
Impact on net earnings in succeeding year from:		
Increase in interest rates of:		
100 basis points	$ 41,067	$ 43,323
200 basis points	79,812	85,353
Decrease in interest rates of:		
100 basis points[1]	(36,141)	(64,577)
200 basis points[1]	(33,853)	(57,242)

[1] Certain aspects of the decrease in interest rate scenarios are constrained by interest rate floors when appropriate.

The potential impact of a 100- and 200-basis-point increase is well within our interest rate risk management policy of $77 million and $132 million, respectively.

24. Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were offered an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATB Investment Management Inc. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- Receive a cash payment at maturity representing the then-current value of the note
- Submit a request to sell notes during the annual transaction window [subject to a three-year vesting period and additional restrictions on ATB Investor Services (ATBIS) executives]
- Receive cash distributions, if any, based on the formula set out in the note

Upon an employee's termination, the designated affiliate of ATB has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATBIS decreases, that the note holder will lose some or all of the original investment. There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant.

During the year, ATB issued $2,684 (2016: $3,964) of these notes, which are recorded in other liabilities in the Consolidated Statement of Financial Position. During the current year, $14,846 (2016: $2,926) of the notes were redeemed. Income of $4,577 (2016: $8,963 expense) was recognized during the year to reflect the decrease in achievement notes outstanding, offset by an increase in the fair value of the notes based on their valuation as at March 31, 2017. As at March 31, 2017, the liability for these notes was $54,555 (2016: $59,222). During the year, $3,139 (2016: $3,378) in distribution payments were accrued for payment to achievement note holders.

25. Capital Management

ATB measures and reports capital adequacy to ensure it meets the minimum levels set out by its regulator, Alberta Treasury Board and Finance, while supporting the continued growth of its business.

As a Crown corporation, ATB and its subsidiaries operate under a regulatory framework established pursuant to the *Alberta Treasury Branches Act* and associated regulations and guidelines. The capital adequacy requirements for ATB are defined in a guideline authorized by the Minister, which was modelled after guidelines governing other Canadian deposit-taking institutions. ATB's minimum Tier 1 capital requirement is 7%, and the total capital requirement is the greater of 10% of risk-weighted assets or 5% of total assets. Risk weights are established for various on-balance-sheet and off-balance-sheet assets according to the degree of credit risk. Tier 1 capital consists of retained earnings, and Tier 2 capital consists of eligible portions of subordinated debentures and wholesale borrowings, the collective allowance for loan losses, and notional capital. Wholesale borrowings became eligible as Tier 2 capital as of December 2015 as a result of an amendment to the capital requirements guideline. Effective March 30, 2009, $600,000 of notional (or deemed) capital was made available to ATB. This amount reduces by 25% of net income each quarter.

As at March 31, 2017, ATB has exceeded both the total capital requirements and the Tier 1 capital requirement of the *Capital Adequacy* guideline.

As at March 31 *($ in thousands)*	2017	2016
Tier 1 capital		
Retained earnings	$ **3,179,285**	$ 3,028,505
Tier 2 capital		
Eligible portions of:		
Subordinated debentures	**132,395**	168,985
Wholesale borrowings	**1,300,000**	980,000
Collective allowance for loan losses	**228,588**	207,136
Notional capital	**217,617**	255,312
Total Tier 2 capital	**1,878,600**	1,611,433
Total capital	$ **5,057,885**	$ 4,639,938
Total risk-weighted assets	$ **32,985,934**	$ 33,927,048
Risk-weighted capital ratios:		
Tier 1 capital ratio	**9.6%**	8.9%
Total capital ratio	**15.3%**	13.7%

26. Segmented Information

ATB has organized its operations and activities around the following four areas of expertise:

- **Retail Financial Services** comprises the branch, agency, and ABM networks and provides financial services to individuals.
- **Business and Agriculture** provides financial services to independent business and agricultural customers.
- **Corporate Financial Services** provides financial services to mid-sized and large corporate borrowers.
- **Investor Services** provides wealth management solutions, including retail brokerage, mutual funds, portfolio management, and investment advice.

The four identified segments differ in products and services offered, but are all within the same geographic region, as virtually all of ATB's operations are limited to customers within the Province of Alberta.

The strategic service units are composed of business units of a corporate nature, such as investment, risk management, and treasury operations, as well as expenses, collective allowance, and recoveries for loan losses not expressly attributed to any area of expertise.

Basis of Presentation

Results presented in the following schedule are based on ATB's internal financial reporting systems. The accounting policies used in preparing the schedules are consistent with those followed in preparing the consolidated financial statements, as is disclosed in the notes to the statements. Since these areas of expertise are based on ATB's internal management structure, they may not be directly comparable to those of other financial institutions.

Net interest income is attributed to each area of expertise according to ATB's internal funds transfer pricing (FTP) system, whereby assets earn net interest income to the extent that external revenues exceed internal FTP expense, and liabilities earn net interest income to the extent that internal FTP revenues exceed external interest expense. Individually assessed provisions for loan losses are allocated based on the individual underlying impaired loan balances, and collectively assessed provisions are calculated on the total performing loan balances based on ATB's internal credit risk model.

Direct expenses are attributed between areas of expertise as incurred. Certain indirect expenses are allocated between Investor Services and the other areas on the basis of interline service agreements. Certain other costs are allocated between the reporting segments using refined allocation methods incorporating activity-based estimates of indirect cost allocation. Indirect expenses that are not allocated and direct expenses of a corporate or support nature are reported under strategic service units.

($ in thousands)	Retail Financial Services	Business and Agriculture	Corporate Financial Services	Investor Services	Strategic service units	Total
March 31, 2017						
Net interest income	$ 440,980	$ 287,198	$ 316,105	$ 459	$ 39,573	$ 1,084,315
Other income (loss)	83,282	64,351	76,197	169,849	(2,783)	390,896
Total operating revenue	524,262	351,549	392,302	170,308	36,790	1,475,211
Provision for loan losses	95,458	77,433	62,098	-	-	234,989
Non-interest expenses	466,061	207,634	108,352	123,601	138,756	1,044,404
(Loss) income before payment in lieu of tax	(37,257)	66,482	221,852	46,707	(101,966)	195,818
Payment in lieu of tax	-	-	-	10,743	34,295	45,038
Net (loss) income	$ (37,257)	$ 66,482	$ 221,852	$ 35,964	$ (136,261)	$ 150,780
Total assets	$ 21,899,833	$ 7,809,084	$ 11,076,094	$ 157,954	$ 7,604,321	$ 48,547,286
Total liabilities	$ 12,844,828	$ 9,396,929	$ 11,015,842	$ 115,509	$ 12,026,892	$ 45,400,000
March 31, 2016						
Net interest income	$ 455,192	$ 295,884	$ 325,742	$ 434	$ 15,557	$ 1,092,809
Other income	86,498	60,667	62,058	153,155	71,722	434,100
Total operating revenue	541,690	356,551	387,800	153,589	87,279	1,526,909
Provision for loan losses	87,661	41,020	258,878	-	-	387,559
Non-interest expenses	451,908	204,762	97,707	112,811	131,734	998,922
Income (loss) before payment in lieu of tax	2,121	110,769	31,215	40,778	(44,455)	140,428
Payment in lieu of tax	-	-	-	9,379	22,919	32,298
Net income (loss)	$ 2,121	$ 110,769	$ 31,215	$ 31,399	$ (67,374)	$ 108,130
Total assets	$ 21,244,658	$ 7,384,520	$ 11,881,375	$ 131,093	$ 6,115,632	$ 46,757,278
Total liabilities	$ 12,701,875	$ 9,097,122	$ 8,418,943	$ 94,612	$ 13,334,906	$ 43,647,458

27. Comparative Amounts

Certain comparative amounts have been reclassified to conform to the current period's presentation.

ATB INSURANCE ADVISORS INC.

Financial Statements

Year Ended March 31, 2017

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INDEPENDENT AUDITOR'S REPORT

AUDITOR GENERAL
Alberta

To the Board of Directors of ATB Insurance Advisors Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Insurance advisors Inc., which comprise the statement of financial position as at March 31, 2017, and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Insurance Advisors Inc. as at March 31, 2017, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
May 24, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017 ($ thousands)

	March 31, 2017	As restated – note 14 March 31, 2016
ASSETS	$	$
Current assets		
Cash	35	32
Accounts receivable	32	72
	67	104
Non-current assets		
Intangible assets *(note 7)*	175	45
	242	149
LIABILITIES		
Current liabilities		
Accrued liabilities	41	2
Lapse provision	40	51
Incentive compensation payable *(note 12)*	5	8
Due to affiliates *(note 5)*	24	16
Due to ATB *(note 6(i))*	5,048	5,118
	5,158	5,195
Long-term liabilities		
Lapse provision	13	20
Accrued liabilities	30	10
	5,201	5,225
SHAREHOLDER'S EQUITY		
Share capital *(note 8)*	5	5
Deficit	(4,964)	(5,081)
	(4,959)	(5,076)
	242	149

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

Original signed by

Director

Original signed by

Chief Financial Officer

Statement of Changes in Equity

For the year ended March 31, 2017 ($ thousands, except for shares)

As restated – note 14	Class A Common Shares #	Share Capital $	Deficit $	Shareholder's Equity $
Balance at March 31, 2015	100	5	(5,251)	(5,246)
Net income and comprehensive income	-	-	170	170
Balance at March 31, 2016	100	5	(5,081)	(5,076)
Balance at March 31, 2016	**100**	**5**	**(5,081)**	**(5,076)**
Net income and comprehensive income	**-**	**-**	**117**	**117**
Balance at March 31, 2017	**100**	**5**	**(4,964)**	**(4,959)**

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2017 ($ thousands)

	March 31, 2017 $	As restated – note 14 March 31, 2016 $
Revenue		
Insurance commissions	**740**	801
	740	801
Administration and selling expenses ***(note 11)***		
Banking and interest charges	**137**	142
Salaries and employee benefits *(note 12)*	**132**	98
Referral fees paid to affiliates and ATB	**99**	125
General and administrative expenses	**91**	76
Amortization expense	**13**	5
Commission expenses	**10**	12
Professional fees	**4**	9
Incentive compensation expenses *(note 12)*	**4**	5
	490	472
Other expenses		
Intercorporate management fees *(notes 10 and 11)*	**98**	108
Net income before payment in lieu of tax	**152**	221
Payment in lieu of tax (PILOT) *(note 6(ii))*	**35**	51
Net income and comprehensive income	**117**	170

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31, 2017 ($ thousands)

	March 31, 2017	As restated – note 14 March 31, 2016
Cash provided from (used in)	$	$
Operating activities		
Net income	117	170
Items not affecting cash		
Amortization of intangible assets	13	5
Net operating activities	130	175
Net change in non-cash working capital items		
Accounts receivable	40	(50)
Accrued liabilities	59	(1)
Lapse provision	(18)	32
Incentive compensation payable	(3)	(8)
Due to affiliates	8	49
PILOT payable	9	22
Change in non-cash working capital items	95	44
Net cash from operating activities	225	219
Investing activities		
Intangible assets	(143)	(50)
Net cash used in investing activities	(143)	(50)
Financing activities		
Due to ATB	(79)	(1,458)
Net cash used in financing activities	(79)	(1,458)
Net change in cash	3	(1,289)
Cash at beginning of period	32	1,321
Cash at end of period	35	32
Supplementary information		
Interest paid	137	142
PILOT paid	26	28

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2017 ($ in thousands)

1. Nature of Operations and Economic Dependence

ATB Insurance Advisors Inc. ("ATBIA" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM") and ATB Securities Inc. ("ATBSI"). ATBIA, ATBIM, and ATBSI operate under the trademark ATB Investor Services ("ATBIS"). ATBIA was established to provide personal insurance products including, but not limited to, life insurance, disability insurance, critical illness insurance and annuities. As a provincial Crown corporation, ATBIA is exempt from income tax; however, it is subject to payment in lieu of taxes ("PILOT") as described in note 6(ii).

The continuing operations of ATBIA are dependent upon ATB's ongoing financial support.

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements were approved by the Board of Directors on May 24, 2017.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2017.

ATBIA's financial statements are presented in Canadian dollars, ATBIA's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets and liabilities at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities, and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenue and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIA's critical accounting estimates under IFRS:

i Amortization Methods

Intangible assets are amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration existing long-term agreements and contracts. While these useful life estimates are reviewed on a regular basis and amortization calculations are revised accordingly, actual lives may differ from the estimates.

ii Provision for Lapse of Insurance Policies

Insurance policies that have been in force for less than two years are typically subject to a chargeback by the insurer when a policy lapses. The provision for lapse is estimated using historical internal lapse rates.

During the year ended March 31, 2017, management provided an allowance for lapsed insurance policies of $53 (March 31, 2016 – $71) representing 2.16% to 5.99% (depending on the policy) of total insurance commissions earned during the year (March 31, 2016 – 2.69% to 7.65%). This provision was posted as a reduction to insurance commission revenue and is recorded as lapse provision in the statement of financial position. The current portion of lapse provision represents the provision for insurance policies expected to lapse in the next fiscal year.

iii Estimates for Fair Valuing Certain Assets and Liabilities of ATBIA

ATBIA's long-term incentive compensation plan ("LTIP") has maturity dates longer than one year and therefore is carried at fair value using an appropriate discount rate. The discount rates and inputs and assumptions for calculations of fair value are reviewed on a regular basis; however, actual fair values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Intangible Assets

Intangible assets represent purchases for an insurance advisors business. After initial recognition, these purchases are carried at cost less accumulated amortization and provisions for impairment, if any, and are amortized on a straight-line basis over their estimated useful lives of 10 years.

e. Impairment of Intangible Assets

Intangible assets are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

f. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIA; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

g. Revenue Recognition

ATBIA earns insurance commissions from selling insurance products to customers. Insurance commissions are recorded as revenue at the time the customer enters into a policy contract with an insurance provider represented by ATBIA. Commission agreements with insurance providers may include a chargeback clause which provides a right for the insurance provider to chargeback a proportion of commission received by ATBIA if the policy lapses within a specified period. The chargeback period generally expires in two years. As a result, a provision is recorded against a portion of the insurance commission revenue until the chargeback period expires. The provision is estimated with reference to ATBIA's actual lapsing experience. The provision is recorded as lapse provision in the statement of financial position. The current portion of the lapse provision represents the provision for insurance policies expected to lapse within 1 year.

h. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenue and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

i. Employee Future Benefits

ATBIA provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBIA provides its management employees with a registered defined contribution pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits, such as salaries, paid absences, and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plans payable at the end of the year are recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBIA has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP (note 12) is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

j. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 11). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

k. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIA becomes a party to the contractual provisions of the instrument.

ATBIA derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred. ATBIA derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available-for-sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. ATBIA has classified cash and accounts receivable as loans and receivables.

Impairment

ATBIA assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBIA may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

i Other Liabilities Measured at Amortized Cost

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, incentive compensation payable, due to affiliates, and due to ATB are classified as other financial liabilities.

l. Financial Instruments - Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, accounts receivable, due to affiliates, accrued liabilities, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

The fair value of the LTIP component of the incentive compensation payable amounting to $nil (March 31, 2016 – $2) is determined by discounting the expected future obligation of the grants using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBIA's financial instruments consist of cash, accounts receivable, accrued liabilities, incentive compensation payable, due to affiliates, and due to ATB.

ATBIA's financial instruments are exposed to a variety of financial risks: market risk, credit risk, and liquidity risk. ATBIA's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIA's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIA does not hold financial instruments denominated in foreign currencies and therefore is not exposed to currency risk.

Interest Rate Risk

ATBIA is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIA is exposed to interest rate risk as the fair value of LTIP will fluctuate as a result of changes in market interest rates. ATBIA does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2017, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT (note 6(ii)), would be approximately $50 (March 31, 2016 – $51).

Price Risk

ATBIA is not exposed to financial market pricing risk as no financial instruments held by the Company will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBIA. ATBIA is exposed to credit risk primarily through its cash and accounts receivable balances.

Cash is on deposit with ATB, an Alberta Crown Agent from which management believes the risk of loss is remote.

Accounts receivable are primarily composed of insurance commissions receivable from large and reputable insurance companies from whom the risk of loss is deemed to be insignificant.

Management has not provided an allowance for doubtful accounts on accounts receivable as the Company has historically no collection losses on amounts owing from insurance companies and believes collectability is reasonably assured.

The Company's maximum credit exposure is $67 (March 31, 2016 – $104) which is the sum of cash and accounts receivable.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its operating obligations and whether additional funding is required through its credit facilities (note 13) or parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk, which are considered short-term (due on demand or within 30 days), include accrued liabilities, incentive compensation payable, due to affiliates, and due to ATB.

4. Accounting Changes

New Accounting Standards and Interpretations not yet Adopted

IAS 7 *Statement of Cash Flows*

On January 29, 2016, IASB published amendments to IAS 7 Statement of Cash Flows. These amendments are intended to provide more information over the entity's financing activities. The update will also require additional disclosure over the changes in liabilities arising from financing activities.

ATBIA has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted and concluded it will not have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, which will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and Measurement

IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories which determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected.

Impairment

IFRS 9 introduces a new impairment model based on expected credit losses. The model will apply to all financial assets, which includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees with the most significant impact to loans. Financial assets classified or designated at fair value through profit or loss will be excluded from the new impairment model.

ATBIA is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18, which covers contracts for goods and services, and IAS 11, which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer; so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBIA is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2018.

5. Due to Affiliates

In the normal course of operations ATBIA pays referral fees to ATBSI. Alternatively, ATBIA may pay for certain expenses on behalf of ATBIM and ATBSI. These amounts are duly recorded as receivables or payables in each of ATBIM's and ATBSI's accounts. The amounts due to affiliates arising from these transactions are generally settled in the following month and are not subject to interest charges.

The amounts due to affiliates are as follows:

	March 31, 2017 $	March 31, 2016 $
Due to ATBSI	**24**	16

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses on behalf of ATBIA. The amounts due to ATB arising from these transactions are as follows:

	March 31, 2017 $	March 31, 2016 $
Due to ATB	**5,048**	5,118

The net amount due to ATB, less PILOT (note 6(ii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2017. The prime lending rate at March 31, 2017 was 2.70% (March 31, 2016 – 2.70%).

ii Payment in Lieu of Tax (PILOT)

Pursuant to the ATB Act, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax ("PILOT") is calculated as 23% of net income reported under IFRS.

For the year ended March 31, 2017, ATBIA accrued and incurred an expense of $35 (March 31, 2016 – $51) for PILOT. If ATBIA incurs a net loss at year end, the recovery will be offset against the amounts that are due to ATB (note 6(i)). The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2017.

7. Intangible Assets (As Restated – Note 14)

	Intangible Assets $
Cost	
Balance at April 1, 2015	-
Additions	50
Balance at March 31, 2016	50
Balance at April 1, 2016	**50**
Additions	**143**
Balance at March 31, 2017	**193**
Depreciation	
Balance at April 1, 2015	-
Amortization for the year	5
Balance at March 31, 2016	5
Balance at April 1, 2016	**5**
Amortization for the year	**13**
Balance at March 31, 2017	**18**
Carrying Amounts	
Balance at March 31, 2016	45
Balance at March 31, 2017	**175**

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2017 was $13 (March 31, 2016 – $5). There were no impairments recognized during the year ended March 31, 2017 (March 31, 2016 – $nil).

8. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2017	March 31, 2016
Class A common shares #	**100**	100
Amount	**$5**	$5

9. Capital Risk Management and Restrictions

ATBIA's objectives in managing its capital, which is defined as shareholder's equity, are:

- to safeguard ATBIA's ability to operate as a going concern; and
- to provide financial capacity and flexibility to meet its strategic objectives.

The capital structure of ATBIA is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIA on a monthly and cumulative basis.

ATBIA works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIA's capital management objectives have not changed over the periods presented.

10. Intercorporate Management Fees

An intercorporate management fee ("management fee") was implemented in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

11. Related-Party Transactions

In the normal course of operations, ATBIA pays referral fees to ATBSI. ATB also charges ATBIA for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)).

A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2017 $	March 31, 2016 $
	Administration and selling expenses			
ATBSI	Achievement notes administration	Salaries and employee benefits	**1**	2
ATBSI	Referral fees	Referral fees paid to affiliates and ATB	**74**	124
ATBSI	Management fees	Intercorporate management fees	**98**	108
ATB	Referral fees	Referral fees paid to affiliates and ATB	**25**	1
ATB	Rent	General and administrative expenses	**39**	41
			237	276
	Interest Expense and Standby Fees			
ATB	Interest expense and standby fees	Banking and interest charges	**137**	142

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Under IFRS, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Key management are compensated through ATBSI, and therefore there is no key management compensation recorded in these financial statements. The key management compensation is captured in the management fee charged by ATBSI.

Employee Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBIA. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note.
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATBIS executives); and,
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATBIS reduces, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2017 the liability recorded by ATB with regards to the achievement notes is $315 (March 31, 2016 –$779). The $464 (March 31, 2016 – $79) change in the liability from the prior year is a result of $521 (March 31, 2016 – $24) in achievement notes redeemed during the year and a corresponding increase of $57 (March 31, 2016 – $103) due to appreciation of the achievement notes.

12. Employee Future Benefits

ATBIA provides future benefits to current and past employees through defined contribution plans. All defined contribution plan members are in a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expenses within salaries and employee benefits and are expensed as they become due. For the year ended March 31, 2017, expenses related to the plan were $12 (March 31, 2016 – $5).

As at March 31, 2017, ATBIA did not have an LTIP obligation (March 31, 2016 – $2).

13. Credit Facility

Effective June 10, 2016, ATBIA has access to a $50 unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.45% at March 31, 2017. No amounts have been drawn on the facility at March 31, 2017. A standby fee of 0.25% is calculated daily on the undrawn portion and remitted to ATB quarterly.

14. Restatement of Prior Year Error

During the year, the Company made changes to the accounting for the purchase of an insurance advisor's business. Advisor buyouts were previously expensed in full; however, they should have been recorded as intangible assets and amortized over a 10-year period commencing at the time of purchase. The correction has been accounted for retrospectively, and the effect of the change is an increase in net income of $82 for the year ended March 31, 2016.

The impact of the 2016 restatements are itemized below:

Statement of Financial Position

	Restatement $	Original Presentation $
Intangible assets	**45**	-
Accrued liabilities – current	**2**	39
Accrued liabilities – long-term	**10**	34
Due to ATB	**5,118**	5,094
Deficit	**(5,081)**	(5,163)

Statement of Changes in Equity

	Restatement $	Original Presentation $
Net income and comprehensive income	**170**	88
Deficit	**(5,081)**	(5,163)

Statement of Operations and Comprehensive Income

	Restatement $	Original Presentation $
General and administrative expenses	**76**	188
Amortization expense - Intangible assets	**5**	-
Payment in lieu of tax (PILOT)	**51**	26
Net income and comprehensive income	**170**	88

Statement of Cash Flows

	Restatement $	Original Presentation $
Net income	**170**	88
Amortization expense – Intangible assets	**5**	-
Accrued liabilities	**(1)**	60
PILOT payable	**22**	(2)
Intangible assets	**(50)**	-

ATB INVESTMENT MANAGEMENT INC.

Financial Statements

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AUDITOR GENERAL *Alberta*

Independent Auditor's Report

To the Board of Directors of ATB Investment Management Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Investment Management Inc., which comprise the statements of financial position as at March 31, 2017 and 2016, and the statements of operations and comprehensive income, changes in equity and cash flows for the years ended March 31, 2017 and 2016, and a summary of significant accounting policies and other explanatory information. The financial statements have been prepared by management to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*, based on the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Investment Management Inc. as at March 31, 2017 and 2016, and its financial performance and its cash flows for the years ended March 31, 2017 and 2016 in accordance with the financial reporting framework specified in paragraph 3.2(3)(a) of National Instrument 52-107 *Acceptable Accounting Principles and Auditing Standards* for financial statements delivered by registrants.

Basis of Accounting and Restriction on Use

Without modifying my opinion, I draw attention to note 2(a) to the financial statements, which describes the basis of accounting. The financial statements are prepared to assist ATB Investment Management Inc. to meet the requirements of National Instrument 31-103 *Registration Requirements and Exemptions*. As a result, the financial statements may not be suitable for another purpose. My report is intended solely for the Board of Directors of ATB Investment Management Inc. and the Alberta Securities Commission and should not be used by parties other than the Board of Directors of ATB Investment Management Inc. or the Alberta Securities Commission.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
May 24, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017 ($ thousands)

	March 31, 2017	March 31, 2016
ASSETS	$	$
Current assets		
Cash	13,979	8,523
Accounts receivable	12,906	11,158
Client fees receivable	3,474	3,005
Securities owned *(note 14)*	664	-
Prepaid expenses	338	326
	31,361	23,012
Non-current assets		
Software and computer equipment *(note 7)*	871	1,260
	32,232	24,272
LIABILITIES		
Current liabilities		
Accrued liabilities	7,396	6,510
Commissions payable	522	520
Incentive compensation payable *(note 12)*	388	433
Due to affiliates *(note 5)*	354	1,076
Due to ATB *(note 6(i))*	7,559	6,366
	16,219	14,905
Long-term liabilities		
Long-term incentive compensation payable *(note 12)*	67	59
	16,286	14,964
SHAREHOLDER'S EQUITY		
Share capital *(note 8)*	5	5
Retained earnings	15,941	9,303
	15,946	9,308
	32,232	24,272

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]

Director

Original signed by]

Chief Financial Officer

Statement of Changes in Equity

For the year ended March 31, 2017 ($ thousands, except for shares)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholder's Equity $
Balance at March 31, 2015	100	5	8,150	8,155
Dividends	-	-	(20,000)	(20,000)
Net income and comprehensive income	-	-	21,153	21,153
Balance at March 31, 2016	100	5	9,303	9,308
Balance at March 31, 2016	100	5	9,303	9,308
Dividends	-	-	(17,000)	(17,000)
Net income and comprehensive income	-	-	23,638	23,638
Balance at March 31, 2017	100	5	15,941	15,946

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2017 ($ thousands)

	March 31, 2017 $	March 31, 2016 $
Revenue *(note 11)*		
Fund management fees	121,474	110,047
Fee based revenue	14,327	12,667
Interest revenue	135	99
Other revenue	127	54
Securities commissions	92	99
	136,155	122,966
Administration and selling expenses *(note 11)*		
Trailing commissions expense	59,866	55,803
Third party fund manager fees	22,035	19,115
Salaries and employee benefits *(note 12)*	4,300	3,670
Professional fees	3,643	3,085
Commission expenses	2,428	2,118
General and administrative expenses	1,211	886
Incentive compensation expenses *(note 12)*	638	560
IT infrastructure and services	634	629
Amortization expense *(note 7)*	405	428
Clearing and processing	147	164
Banking and interest charges	13	14
	95,320	86,472
Other expenses		
Intercorporate management fees *(notes 10 and 11)*	10,136	9,023
Net income before payment in lieu of tax	30,699	27,471
Payment in lieu of tax (PILOT) *(note 6(iii))*	7,061	6,318
Net income and comprehensive income	23,638	21,153

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31, 2017 ($ thousands)

	March 31, 2017	March 31, 2016
Cash provided from (used in)	$	$
Operating activities		
Net income	23,638	21,153
Items not affecting cash		
Amortization of software and computer equipment	405	428
Net operating activities	24,043	21,581
Net change in non-cash working capital items		
Accounts receivable	(1,748)	(556)
Client fees receivable	(469)	(385)
Prepaid expenses	(12)	(14)
Accrued liabilities	886	341
Commissions payable	2	98
Incentive compensation payable	(37)	(399)
Due to affiliates	(722)	358
PILOT payable	742	1,602
Change in non-cash working capital items	(1,358)	1,045
Net cash from operating activities	22,685	22,626
Investing activities		
Short-term investments	(664)	-
Software and computer equipment	(16)	(363)
Net cash used in investing activities	(680)	(363)
Financing activities		
Dividends	(17,000)	(20,000)
Due to ATB	451	(583)
Net cash used in financing activities	(16,549)	(20,583)
Net change in cash	5,456	1,680
Cash at beginning of period	8,523	6,843
Cash at end of period	13,979	8,523
Supplementary information		
Interest paid	13	14
Interest received	135	99
PILOT paid	6,318	4,716

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2017 ($ in thousands)

1. Nature of Operations

ATB Investment Management Inc. ("ATBIM" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Securities Inc. ("ATBSI") and ATB Insurance Advisors Inc. ("ATBIA"). ATBIM, ATBSI, and ATBIA operate under the trademark ATB Investor Services ("ATBIS"). ATBIM was established to facilitate managing a family of mutual fund portfolios and providing portfolio management services to high net worth clientele. As a provincial Crown corporation, ATBIM is exempt from income tax; however, is subject to payment in lieu of taxes ("PILOT") as described in note 6(ii). ATBIM is registered as a Portfolio Manager and Investment Fund Manager with the Alberta Securities Commission ("ASC").

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements were approved by the Board of Directors on May 24, 2017.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements are prepared in accordance with the financial reporting framework specified in subsection 3.2(3)(a) of National Instrument 52-107, Acceptable Accounting Principles and Auditing Standards for financial statements delivered by registrants (the "Framework"). The Framework requires the financial statements to be prepared in accordance with Canadian generally accepted accounting principles applicable to publicly accountable enterprises, as set out in the CPA Canada Handbook.

These financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") except that any investments in subsidiaries, jointly controlled entities and associates must be accounted for as specified for separate financial statements in IAS 27. Accordingly, readers are cautioned that these financial statements may not be appropriate for other purposes.

The Company has no investments in subsidiaries, jointly controlled entities, or associates as at March 31, 2017 and 2016.

ATBIM's financial statements are presented in Canadian dollars, ATBIM's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets and liabilities at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBIM's critical accounting estimates under the Framework:

i Depreciation and Amortization Methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBIM

ATBIM's long-term incentive compensation plan ("LTIP") has maturity dates longer than one year and therefore is carried at fair value using an appropriate discount rate. The discount rates and inputs and assumptions for calculations of fair value are reviewed on a regular basis; however, actual fair values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Securities Owned

Securities owned consists of seed capital in the Company's funds under management. At each reporting period, the Company assesses its investments in funds managed by the Company for control, or significant influence. Factors considered in the Company's assessment of control and significant influence over the funds include: i) extent of the Company's interest in the funds; ii) rights held by other investors; iii) the remuneration the Company is entitled to for its services as a manager to the fund; and iv) the scope of the Company's decision making authority. If a fund is considered to be controlled by the Company, it will be consolidated. If it is determined that the Company has significant influence or joint control over a fund, it is considered to be an associate.

e. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provision for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are reviewed periodically to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive income in the year of disposal.

f. Software

Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBIM, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

g. Impairment of Computer Equipment and Software

Computer equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is tested for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

h. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBIM; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

i. Revenue Recognition

Fund management fees are based on the net asset values of the ATBIS funds (Compass Portfolios and ATBIS Pools (note 14)) and are recognized on an accrual basis. Fee based revenue includes fees earned from clients for management of their investment assets and is recorded on an accrual basis. Securities commissions are earned on certain trades and are recognized on a trade date basis. Interest and other revenue are recorded on an accrual basis.

j. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

k. Employee Future Benefits

ATBIM provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBIM provides its management employees with a registered defined contribution pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits such as paid absences and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at the end of the year is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBIM has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised) – Employee Benefits, the liability for LTIP (note 12) is recorded at the present value of the grants that have vested as of the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

l. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 11). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

m. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBIM becomes a party to the contractual provisions of the instrument.

ATBIM derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBIM derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available-for-sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are financial assets held-for-trading.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and comprehensive income and are reported as other revenue or other expenses. Interest income and expense on financial assets held-for-trading are included in interest revenue or interest expense. ATBIM has classified securities owned as held-for-trading.

ii Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. ATBIM has classified cash, accounts receivable, and client fees receivable as loans and receivables.

Impairment

ATBIM assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBIM may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

i Other Liabilities Measured at Amortized Cost

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income. Accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB are classified as other financial liabilities.

n. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, accounts receivable, client fees receivable, accrued liabilities, commissions payable, due to affiliates, due to ATB, and certain incentive compensation payable amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Securities owned and certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

The fair value of securities owned is $664 as at March 31, 2017 (March 31, 2016 – $nil). These have been classified as level 1 under the fair value hierarchy.

The fair value of the LTIP component of the incentive compensation payable amounting to $124 (March 31, 2016 – $173) is determined by discounting the expected future obligation of the grants using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBIM's financial instruments consist of cash, accounts receivable, client fees receivable, securities owned, accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

ATBIM's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBIM's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBIM's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk and price risk.

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBIM does not hold significant amounts of financial instruments denominated in foreign currencies and therefore is not exposed to any significant currency risk.

Interest Rate Risk

ATBIM is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) is subject to interest rate fluctuations and the degree of volatility in these rates. ATBIM is exposed to interest rate risk as the fair value of LTIP will fluctuate as a result of changes in market interest rates. ATBIM does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2017, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT (note 6(ii)), would be approximately $5 (March 31, 2016 – $1).

Price Risk

ATBIM is exposed to price risk through its securities owned as the fair value of these securities will fluctuate as a result of changes in market prices. Securities owned of $664 (March 31, 2016 – $nil) consists of seed capital invested for the ATBIS Pools (note 14). Management deems the price risk related to this investment to be insignificant.

Credit Risk

Credit risk is the risk that the counterparty to a financial asset will default resulting in a financial loss to ATBIM. ATBIM is exposed to credit risk through its cash, accounts receivable, and client fees receivable balances.

The Company has deposited cash with its parent company, ATB, an Alberta Crown Agent, from which management believes the risk of loss is remote.

The Company's exposure to credit risk is limited to the ATBIS funds and customer accounts. At March 31, 2017, ATBIM recorded $11,043 (March 31, 2016 – $9,647) receivable from the ATBIS funds from which management believes the risk of loss to be insignificant.

The credit risk inherent in ATBIM's remaining accounts receivable and client fees receivable balances of $5,337 (March 31, 2016 – $4,516) is effectively mitigated by the Company's diverse customer base. Management deems the risk from customer accounts to be insignificant as fees from clients are received directly from client portfolios and historically ATBIM has not had credit losses on these balances. Management has not provided an allowance for doubtful accounts on these balances as it believes collectability is reasonably assured.

The Company's maximum credit exposure is $30,359 (March 31, 2016 – $22,686), which is the sum of its cash, accounts receivable, and client fees receivable balances.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its operating obligations and whether additional funding is required through its credit facilities (note 13) or parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk, which are considered short-term (due on demand or within 30 days), include accrued liabilities, commissions payable, incentive compensation payable, due to affiliates, and due to ATB.

4. Accounting Changes

New Accounting Standards and Interpretations not yet Adopted

IAS 7 *Statement of Cash Flows*

On January 29, 2016, IASB published amendments to IAS 7 *Statement of Cash Flows*. These amendments are intended to provide more information over the entity's financing activities. The update will also require additional disclosure over the changes in liabilities arising from financing activities.

ATBIM has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted and concluded it will not have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, that will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and Measurement

IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories which determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected.

Impairment

IFRS 9 introduces a new impairment model based on expected credit losses. The model will apply to all financial assets, which includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees, with the most significant impact to loans. Financial assets classified or designated at fair value through profit or loss will be excluded from the new impairment model.

ATBIM is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer – so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBIM is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2018.

5. Due to Affiliates

In the normal course of operations, ATBIM pays trailing commissions to ATBSI. ATBSI collects client fees on behalf of ATBIM. ATBSI and ATBIA may pay for certain expenses on behalf of ATBIM. Alternatively, ATBIM may pay for certain expenses on behalf of ATBSI and ATBIA. The amounts due to ATBSI and ATBIA are generally settled in the following month and are not subject to interest charges.

The amounts due to affiliates are as follows:

	March 31, 2017 $	March 31, 2016 $
Due to ATBSI	**354**	1,076

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBIM. The amounts due to ATB are generally settled in the following month.

The amounts due to ATB arising from these transactions are as follows:

	March 31, 2017 $	March 31, 2016 $
Due to ATB	**7,559**	6,366

The net amount due to ATB, less PILOT (note 6(ii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2017. The prime lending rate at March 31, 2017 was 2.70% (March 31, 2016 – 2.70%).

ii Payment in Lieu of Tax (PILOT)

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax ("PILOT") is calculated as 23% of net income reported under IFRS.

For the year ended March 31, 2017, ATBIM accrued and incurred an expense of $7,061 (March 31, 2016 – $6,318) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2017.

7. Software and Computer Equipment

	Computer equipment under development $	Software $	Software under development $	Total $
Cost				
Balance at April 1, 2015	-	4,514	908	5,422
Additions	-	1,316	493	1,809
Transfer to completed asset	-	-	(1,316)	(1,316)
Disposals	-	(116)	(85)	(201)
Balance at March 31, 2016	-	5,714	-	5,714
Balance at April 1, 2016	**-**	**5,714**	**-**	**5,714**
Additions	**2**	**-**	**14**	**16**
Balance at March 31, 2017	**2**	**5,714**	**14**	**5,730**
Depreciation				
Balance at April 1, 2015	-	4,098	-	4,098
Amortization for the year	-	428	-	428
Disposals	-	(72)	-	(72)
Balance at March 31, 2016	-	4,454	-	4,454
Balance at April 1, 2016	**-**	**4,454**	**-**	**4,454**
Amortization for the year	**-**	**405**	**-**	**405**
Balance at March 31, 2017	**-**	**4,859**	**-**	**4,859**
Carrying Amounts				
Balance at March 31, 2016	-	1,260	-	1,260
Balance at March 31, 2017	**2**	**855**	**14**	**871**

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2017 was $405 (March 31, 2016 – $428). There were no retirements or impairments recognized during the year ended March 31, 2017 (March 31, 2016 – $44).

8. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2017	March 31, 2016
Class A common shares #	100	100
Amount	$5	$5

9. Capital Risk Management and Restrictions

ATBIM's objectives in managing its capital, which is defined as shareholder's equity, are:

- To safeguard ATBIM's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the ATB Investor Services Board of Directors from time to time;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain at all times working capital sufficient in size to satisfy the ASC's minimum excess working capital requirements.

The Company has met the ASC's minimum excess working capital requirement of $100 throughout the year.

The capital structure of ATBIM is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBIM on a monthly and cumulative basis. ATBIM works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBIM's capital management objectives have not changed over the periods presented.

10. Intercorporate Management Fees

An intercorporate management fee ("management fee") was implemented in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

11. Related-Party Transactions

In the normal course of operations, ATB charges ATBIM for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)). In addition, ATBSI charges ATBIM for client referral fees and for costs incurred related to transaction processing for ATBIM clients. ATBSI charges trailing commission fees to ATBIM on the sale of mutual funds. Where determinable, ATB allocates costs for employees of ATB providing services to ATBIM.

A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2017 $	March 31, 2016 $
	Revenue			
ATBIS funds	Investment management fees	Fund management fees	**115,388**	105,174
ATB	Interest revenue	Interest revenue	**135**	99
ATB	GIC referral fees	Other revenue	**60**	31
			115,583	105,304
	Administrative and Selling Expenses			
ATBSI	Trailer fees	Trailing commissions expense	**59,779**	55,744
ATBSI	Achievement notes administration	Salaries and employee benefits	**14**	16
ATBSI	Client referral fees	Professional fees	**2,961**	2,546
ATBSI	Management fees	Intercorporate management fees	**10,136**	9,023
ATB	Wire transfer costs	Professional fees	**2**	2
ATB	Rent	General and administrative	**174**	251
			73,066	67,582
	Interest Expense and Standby Fees			
ATB	Interest expense and standby fees	Banking and interest charges	**13**	14

The fund management fees above do not include fees that are directly paid by clients.

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

The compensation for key management personnel is primarily charged by ATBSI to the Company as part of the management fee allocation (note 10).

The table below outlines the amounts that are not captured in the management fee and are incurred by the Company.

	March 31, 2017 $	March 31, 2016 $
Short-term employee benefits	**718**	684
Deferred compensation	**83**	52
Retirement and post employment benefits	**73**	71
	874	807

Employee Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBIM. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note.
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATBIS executives); and,
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATBIS reduces, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2017 the liability recorded by ATB with regards to the achievement notes is $4,845 (March 31, 2016 – $6,360). The $1,515 (March 31, 2016 – $985) change in the liability from the prior year is a result of $208 (March 31, 2016 – $153) in new subscriptions, $2,597 (March 31, 2016 – $96) in achievement notes redeemed during the year and a corresponding increase of $874 (March 31, 2016 – $928) due to appreciation of the achievement notes.

12. Employee Future Benefits

Defined contribution plans

ATBIM provides future benefits to current and past employees through defined contribution plans. All defined contribution plan members are in a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense within salaries and employee benefits and are expensed as they become due. For the year ended March 31, 2017, expenses related to the plan were $602 (March 31, 2016 – $449).

Long-term incentive plan

As at March 31, 2017, the total obligation, vested portion, and present value of the grants which have vested are as follows:

Fiscal Year Issued	LTIP Grants Issued $	Allowance for Early Termination $	Vested $	PV of the Grants Vested $
2015	60	3	57	57
2016	57	3	36	33
2017	130	7	41	34
Total	**247**	13	134	124

The LTIP grants issued include the appreciation and depreciation of those awards. Of the $124 (March 31, 2016 – $173) present value of the obligation that has vested, $57 (March 31, 2016 – $114) is included in the current portion of the incentive compensation payable and $67 (March 31, 2016 – $59) is included in the long-term portion. The related expense of $76 (March 31, 2016 – $34) is recorded in incentive compensation expenses.

13. Credit Facility

ATBIM has access to a $5,000 (March 31, 2016 – $5,000) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.45% at March 31, 2017 (March 31, 2016 – 2.45%). No amounts have been drawn on the facility at March 31, 2017 (March 31, 2016 – $nil). A standby fee of $12 (March 31, 2016 – $13) was paid during the year on the undrawn portion.

14. ATBIS Pools Seed Capital

On September 22, 2016, the ASC approved the prospectus for the establishment of the ATBIS Pools. These mutual funds were created in order to accommodate high net worth clients that were seeking a more specialized offering. The Company provided seed capital of $630 in order to establish the mutual funds, and will recover these amounts after client investments exceed the minimum investment of $500 for each of the four pools. The fair value of the seed capital at March 31, 2017 is $664 (note 3(i)).

ATB SECURITIES INC.

Financial Statements

Year Ended March 31, 2017

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AUDITOR GENERAL
Alberta

Independent Auditor's Report

To the Board of Directors of ATB Securities Inc.

Report on the Financial Statements

I have audited the accompanying financial statements of ATB Securities Inc., which comprise the statement of financial position as at March 31, 2017, and the statements of operations and comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of ATB Securities Inc. as at March 31, 2017, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
May 24, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017 ($ thousands)

	March 31, 2017	March 31, 2016
ASSETS	$	$
Current assets		
Cash	4,185	805
Short-term investments	37,968	41,976
Clients' cash held in trust	26,316	23,806
Due from clients	22,336	8,091
Due from brokers and dealers	15,568	15,250
Client fees receivable	5,389	3,976
Trailer fees receivable	880	913
Due from affiliates *(note 5)*	378	1,092
Prepaid expenses	476	398
Loans to ATB advisors *(note 12)*	238	225
Miscellaneous receivables	31	162
	113,765	96,694
Non-current assets		
Software and computer equipment *(note 7)*	11,257	10,048
Loans to ATB advisors *(note 12)*	681	862
Deferred employee benefits *(note 12)*	155	206
	12,093	11,116
	125,858	107,810
LIABILITIES		
Current liabilities		
Due to clients	38,768	44,118
Due to brokers and dealers	36,072	13,195
Accrued liabilities	5,332	4,969
Commissions payable	7,630	6,351
Incentive compensation payable *(note 12)*	2,374	2,791
Due to ATB *(note 6(i))*	3,829	3,639
	94,005	75,063
Long-term liabilities		
Long-term incentive compensation payable *(note 12)*	395	417
	94,400	75,480
SHAREHOLDER'S EQUITY		
Share capital *(note 8)*	26,391	26,391
Retained earnings	5,067	5,939
	31,458	32,330
	125,858	107,810

The accompanying notes are an integral part of these financial statements.

Approved by the Board of Directors

[Original signed by]

Director

[Original signed by]

Chief Financial Officer

Statement of Changes in Equity

For the year ended March 31, 2017 ($ and # in thousands)

	Class A Common Shares #	Share Capital $	Retained Earnings $	Shareholder's Equity $
Balance at March 31, 2015	78,995	26,391	1,781	28,172
Dividends	-	-	(6,000)	(6,000)
Net income and comprehensive income	-	-	10,158	10,158
Balance at March 31, 2016	78,995	26,391	5,939	32,330
Balance at March 31, 2016	**78,995**	**26,391**	**5,939**	**32,330**
Dividends	-	-	**(13,000)**	**(13,000)**
Net income and comprehensive income	-	-	**12,128**	**12,128**
Balance at March 31, 2017	**78,995**	**26,391**	**5,067**	**31,458**

The accompanying notes are an integral part of these financial statements.

Statement of Operations and Comprehensive Income

For the year ended March 31, 2017 ($ thousands)

	March 31, 2017	March 31, 2016
Revenue *(note 11)*	$	$
Mutual fund commissions	**66,642**	63,323
Fee based revenue	**19,482**	15,413
GIC commissions	**3,059**	2,851
Client referral fees	**3,035**	2,670
Client account fees	**2,958**	2,990
Securities commissions	**460**	448
Interest revenue	**324**	335
Other revenue	**268**	206
	96,228	88,236
Administration and selling expenses *(note 11)*		
Commission expenses	**40,322**	37,332
Salaries and employee benefits *(note 12)*	**25,554**	23,152
General and administrative expenses	**7,811**	7,615
IT infrastructure and services	**4,557**	3,875
Professional fees	**4,160**	4,096
Incentive compensation expenses *(note 12)*	**3,247**	3,445
Amortization expense *(note 7)*	**3,127**	2,506
Clearing and processing	**1,894**	2,110
Banking and interest charges	**39**	44
	90,711	84,175
Other income		
Intercorporate management fees *(notes 10 and 11)*	**10,234**	9,131
Net income before payment in lieu of tax	**15,751**	13,192
Payment in lieu of tax (PILOT) *(note 6(ii))*	**3,623**	3,034
Net income and comprehensive income	**12,128**	10,158

The accompanying notes are an integral part of these financial statements.

Statement of Cash Flows

For the year ended March 31, 2017 ($ thousands)

	March 31, 2017	March 31, 2016
Cash provided from (used in)	$	$
Operating activities		
Net income	12,128	10,158
Items not affecting cash		
Amortization of software and computer equipment	3,127	2,506
Net operating activities	15,255	12,664
Net change in non-cash working capital items		
Cash from (paid to) clients and brokers/dealers	454	(5,980)
Client fees receivable	(1,413)	(726)
Trailer fees receivable	33	28
Loans to ATB advisors	219	170
Prepaid expenses	(78)	191
Miscellaneous receivables	131	(119)
Due from affiliates	714	(407)
Accrued liabilities	363	(623)
Commissions payable	1,279	491
Incentive compensation payable	(439)	(1,392)
PILOT payable	588	928
Change in non-cash working capital items	1,851	(7,439)
Net cash from operating activities	17,106	5,225
Investing activities		
Short-term investments	4,008	5,967
Software and computer equipment	(4,336)	(2,727)
Net cash (used in) from investing activities	(328)	3,240
Financing activities		
Dividends	(13,000)	(6,000)
Due to ATB	(398)	(5,433)
Net cash used in financing activities	(13,398)	(11,433)
Net change in cash	3,380	(2,968)
Cash at beginning of period	805	3,773
Cash at end of period	4,185	805
Supplementary information		
Interest paid	39	44
Interest received	324	335
PILOT paid	3,034	2,106

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

For the year ended March 31, 2017 ($ in thousands)

1. Nature of Operations

ATB Securities Inc. ("ATBSI" or the "Company") is a wholly owned subsidiary of ATB Financial ("ATB") and is affiliated with ATB Investment Management Inc. ("ATBIM") and ATB Insurance Advisors Inc. ("ATBIA"). ATBSI, ATBIM, and ATBIA operate under the trademark ATB Investor Services ("ATBIS"). ATBSI was established to provide client wealth management services. As a provincial Crown corporation, ATBSI is exempt from income tax, however, it is subject to payment in lieu of taxes ("PILOT") as described in note 6(ii). ATBSI is a full service broker dealer and is a member of the Investment Industry Regulatory Organization of Canada ("IIROC") and the Canadian Investors Protection Fund ("CIPF").

The address of the Company's registered office is:
2100, 10020 – 100 Street
Edmonton, Alberta T5J 0N3

These financial statements were approved by the Board of Directors on May 24, 2017.

2. Significant Accounting Policies

a. Basis of Preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). The accounting policies adopted are consistent with those of the previous financial year. The policies applied in these financial statements are based on IFRS, issued and outstanding as of March 31, 2017.

ATBSI's financial statements are presented in Canadian dollars, ATBSI's primary operating currency. All references to $ are in Canadian dollars and references to US$ are to United States dollars.

These financial statements have been prepared under the historical cost convention, except for the revaluation of certain assets at fair value through income.

b. Critical Accounting Judgements and Estimates

The preparation of these financial statements requires management to make estimates and assumptions that affect the reported amounts of statement of financial position assets and liabilities and the disclosure of contingent assets and liabilities as at the statement of financial position date, as well as the reported amounts of revenues and expenses during the reported period. Actual results could differ significantly from these estimates, and the impact of any such differences will be recorded in future periods.

The following discussion outlines ATBSI's critical accounting estimates under IFRS:

i Depreciation and Amortization Methods

Computer equipment and software are depreciated and amortized over their estimated useful lives. Useful lives are determined based on current facts and past experience and take into consideration the anticipated physical life of the asset, existing long-term agreements and contracts, current and forecasted demand, and the potential for technological obsolescence. While these useful life estimates are reviewed on a regular basis and depreciation calculations are revised accordingly, actual lives may differ from the estimates.

ii Estimates for Fair Valuing Certain Assets and Liabilities of ATBSI

ATBSI's loans to ATB Advisors and long-term incentive compensation plan ("LTIP") have maturity dates longer than one year and therefore are carried at fair value using an appropriate discount rate. The discount rates and inputs and assumptions for calculations of fair value are reviewed on a regular basis; however, actual fair values may differ from the Company's estimates.

c. Cash

Cash consists of cash on deposit held with ATB.

d. Short-Term Investments

Short-term investments consist of Government of Canada Treasury Bills ("T-Bills") with maturity dates of less than one year.

e. Clients' Cash Held in Trust

Included in clients' cash held in trust are amounts with respect to Registered Retirement Savings Plans ("RRSP"), Registered Retirement Income Funds ("RRIF"), Registered Education Savings Plans ("RESP"), Tax Free Savings Accounts ("TFSA"), and Registered Disability Savings Plan ("RDSP") segregated in trust accounts with Canadian Western Trust ("CWT"). Corresponding liabilities are included in due to clients. Client balances are reported on a trade-date basis. Cash held in trust is restricted from use by ATBSI.

f. Computer Equipment

Computer equipment is carried at cost less accumulated depreciation and provision for impairment, if any, and is depreciated on a straight-line basis over its estimated useful life. Additions and subsequent expenditures are capitalized only to the extent that they enhance the future economic benefits expected to be derived from the assets. The depreciable amount is the gross carrying amount, less the estimated residual value at the end of its useful economic life. No depreciation is calculated on assets under construction or development until the assets are available for use. The estimated useful life for computer equipment ranges from 3 to 5 years with certain equipment having a useful life of 10 years.

Depreciation rates, methods and the residual values underlying the calculation of depreciation of items of computer equipment are reviewed periodically to take account of any change in circumstances. Gains and losses on the disposal of computer equipment are recorded in the statement of operations and comprehensive income in the year of disposal.

g. Software

Software is carried at cost less accumulated amortization and provisions for impairment, if any, with cost amortized on a straight-line basis over their estimated useful lives. No amortization is calculated on software under construction or development until the assets are available for use. The estimated useful life for software is 3 to 5 years, with certain software having a useful life of 10 years.

Costs related to software developed or obtained for internal use are capitalized if it is probable that future economic benefits will flow to ATBSI, and the cost can be measured reliably. Eligible costs include external direct costs for materials and services, as well as payroll and payroll related costs for employees directly associated with an internally developed software project.

h. Impairment of Computer Equipment and Software

Computer equipment and software in use are subject to impairment review whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Software not ready for use is reviewed for impairment annually. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows (cash-generating units).

i. Due from (to) Clients and Due from (to) Brokers and Dealers

Due from clients are debit positions in client accounts. The majority of the amounts relate to margin balances and pending trades. Due to clients represents credit positions in client accounts. These amounts are due on demand.

Due from (to) brokers and dealers represents amounts related to trades which have been initiated but not settled.

Due from (to) clients and due from (to) brokers and dealers amounts are both recorded on a trade-date basis.

j. Provisions and Contingencies

Provisions are recognized when it is more likely than not that an outflow of economic resources will be required to settle a current legal or constructive obligation, which has arisen as a result of past events, and for which a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessment of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Contingent liabilities are possible obligations that arise from past events whose existence will be confirmed only by the occurrence, or non-occurrence, of one or more uncertain future events not wholly within the control of ATBSI; or are present obligations that have arisen from past events but are not recognized because it is not probable that settlement will require outflow of economic benefits, or because the amount of the obligations cannot be reliably measured. Contingent liabilities are not recognized in the financial statements but are disclosed, where significant, unless the probability of settlement is remote.

k. Foreign Exchange

Transactions denominated in foreign currencies are translated into Canadian dollars using the exchange rates prevailing at the dates of the transactions. Financial assets and liabilities denominated in foreign currencies are translated into and presented in Canadian dollars at the exchange rates in effect at the date of the statement of financial position. Revenues and expenses are translated at the exchange rates prevailing at the respective transaction dates. Realized and unrealized gains and losses arising from these translations are included in the statement of operations and comprehensive income.

l. Revenue Recognition

ATBSI's operating revenues consist of mutual fund commissions, fee based revenue, Guaranteed Investment Certificate ("GIC") commissions, client account fees, client referral fees, securities commissions, interest revenue, and other revenue.

Mutual fund commissions are earned from third party mutual funds and from ATBIM managed funds. Trailer fee revenue is recorded in mutual fund commissions and represents fees paid to the Company by the mutual funds for the on-going support of the Company's clients that hold assets in mutual funds. Trailer fee revenues are recognized on an accrual basis as they are earned. Commission revenue earned on mutual fund sales is recognized on a trade-date basis.

Commissions from GIC sales are earned through a referral fee that is paid by ATB. The referral fee is based on 25 basis points ("bps") of the average amount of ATB GICs held by the Company's clients and is recognized on an accrual basis.

Client account fees include transfer fees, deregistration fees, incidental fees, and administration fees from registered plans. Registered plans are established in accordance with the *Income Tax Act* and administration fees are collected annually from all registered account types. Transfer fees, deregistration fees, and incidental fees are recorded as revenue when charges for transfers, deregistrations, and other services occur. Administration fees are earned and recorded on an accrual basis.

Fee based revenues are earned on customer accounts that pay a contractual fee rate and are recognized on an accrual basis.

Client referral fees include referral fees that are paid by ATBIM to ATBSI as well as referral fees that are paid from ATBIA to ATBSI. The referral fees that are paid by ATBIM are based on a portion of fees generated from clients referred by ATBSI sales staff. Insurance referral fees paid by ATBIA are based on revenues generated by the insurance product sales. Client referral fees are recognized on an accrual basis.

Securities commissions are earned on equity, fixed income, and mutual fund trades and are recognized on a trade-date basis.

Interest and other revenue are recorded on an accrual basis.

Management provides a 2% provision on the total client fees receivable at year-end with respect to an estimate for refunded or waived commissions.

m. Employee Future Benefits

ATBSI provides future benefits to current and past employees through the following plans:

i Accounting for Defined Contribution Plans

ATBSI provides its management employees with a registered defined contribution pension plan. Contributions to the plan are expensed as they become due and are recorded in salaries and employee benefits in the statement of operations and comprehensive income. Contributions payable at the end of the year are recorded in accrued liabilities.

ii Short-Term Employee Benefits

Short-term employee benefits such as paid absences and other benefits including any related payroll taxes are accounted for on an accrual basis over the period in which the employees provide the related services and are recorded in the statement of operations and comprehensive income as salaries and employee benefits. Short-term employee benefits payable at the end of the year are recorded in accrued liabilities.

Certain employees of the Company are eligible to participate in variable compensation plans that allow them to share directly in the success of the Company. On an annual basis, employees may receive a lump sum payment that is based on the Company's achievement of its goals and performance targets. Variable compensation plan expenses are recorded in the statement of operations and comprehensive income as incentive compensation expenses. Variable compensation plan payable at the end of the year is recorded in incentive compensation payable.

iii Long-Term Employee Benefits (LTIP)

ATBSI has an executive long-term incentive plan for certain eligible employees of the Company. The plan provides an incentive for achieving success in execution of strategic objectives that create value and long-term sustainability of the Company. Certain employees of the Company receive LTIP grants approved by the Board of Directors. The amounts are subject to annual appreciation and depreciation factors and are payable three years from the effective date of grant. Following the guidance in IAS 19 (revised)—Employee Benefits, the liability for LTIP (note 12) is recorded at the present value of the grants that have vested as at the year-end date less an allowance for early termination. The liability for LTIP vests over three years from the date of the grant. The liability for LTIP is included in incentive compensation payable, and the related expense is included in incentive compensation expenses.

iv Loans to ATB Advisors

ATBSI grants loans to its advisors at rates significantly below fair value as an employee benefit. In accordance with IAS 39 Financial Instruments: Recognition and Measurement the loans are initially recorded at fair value, discounted at a market rate for a similar loan. After initial recognition, loans are accounted for at amortized cost with interest income determined using the effective interest method. As the rate on the loans to ATB advisors are below market interest rates, the fair value of the loans is less than the carrying amount of the loan. The difference between its fair value on initial recognition and its carrying value is an employee benefit and therefore must be accounted for in accordance with IAS 39 Employee Benefits. As the loans are linked to future employee service, the difference between the carrying value and its fair value is recorded as a deferred employee benefit on the statement of financial position and expensed over the service period to salaries and employee benefits. If the employee is terminated or leaves ATBSI the deferred employee benefit is immediately expensed to salaries and employee benefits.

n. Share-Based Payments

Certain eligible employees of the Company have the opportunity to participate in a share-based compensation plan of ATB. Under this plan, the Company receives services from employees as consideration for Achievement Notes issued by ATB (note 11). The obligation to settle the notes with employees is with ATB. This is a group plan where the awards are considered cash-settled by ATB and equity-settled by the Company. The value of the award for equity-settled plans is determined only once, on the grant date. No compensation expense is recorded by the Company related to the awards when granted since the notes are issued to employees at fair value on the grant date.

o. Financial Instruments – Recognition and Measurement

Financial assets and liabilities are classified based on their characteristics and the intention of management upon their acquisition.

All financial assets and financial liabilities are initially recognized on the trade date. This is the date that ATBSI becomes a party to the contractual provisions of the instrument.

ATBSI derecognizes a financial asset when the contractual right to receive cash flows from the asset has expired or when it transfers the rights to receive the contractual cash flows on a financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

ATBSI derecognizes a financial liability when its contractual obligations are discharged or it is cancelled or expires.

Classification

All financial instruments are initially recorded at fair value and are subsequently accounted for based on one of five classifications:

- financial assets at fair value through profit or loss;
- loans and receivables;
- held-to-maturity;
- investments and available-for-sale financial assets; and
- other financial liabilities.

Management determines the classification of financial assets and liabilities at initial recognition.

Financial Assets

i Financial Assets at Fair Value Through Profit or Loss

Financial assets at fair value through profit or loss are financial assets held-for-trading.

A financial asset is classified as held-for-trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking.

Financial instruments included in this category are recognized initially at fair value with transaction costs taken directly to earnings. Gains and losses arising from changes in fair value are included directly in the statement of operations and comprehensive income and are reported as other revenue or other expenses. Interest income and expense on financial assets held-for-trading are included in interest revenue or interest expense.

Financial assets held-for-trading consist of short-term investments held by ATBSI.

ii Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables are initially measured at fair value and subsequently recorded at amortized cost using the effective interest rate method. ATBSI has classified cash, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, loans to ATB advisors and due from affiliates, and miscellaneous receivables as loans and receivables.

Impairment

ATBSI assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired, and impairment losses are incurred, only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses) discounted at the financial asset's original effective interest rate. The asset's carrying amount is reduced and the amount of the loss is recognized in the statement of operations and comprehensive income. For practical reasons, ATBSI may measure impairment on the basis of an instrument's fair value using an observable market price.

Financial Liabilities

i **Other Liabilities Measured at Amortized Cost**

Other financial liabilities are measured initially at fair value and subsequently recorded at amortized cost using the effective interest rate method with any gains and losses in the realization of other financial liabilities included in income. Due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive compensation payable, and due to ATB are classified as other financial liabilities.

p. Financial Instruments – Estimated Fair Value

The fair value of a financial instrument is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The best evidence of the fair value of a financial instrument at initial recognition is the fair value of the consideration received or paid.

The estimated fair value of items that are short-term in nature is considered to be equal to their carrying value. These items include cash, clients' cash held in trust, due from (to) clients, due from (to) brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, miscellaneous receivables, accrued liabilities, commissions payable, certain incentive compensation payable and due to ATB amounts that are not carried at fair value. These items are classified as level 2 in the fair value hierarchy as described in note 3.

Short-term investments and certain liabilities for incentive compensation are carried at fair value. See note 3 for an explanation of how these items are fair valued and where they lie in the fair value hierarchy.

3. Financial Instruments

i Fair Value Hierarchy

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy based on the quality and reliability of the information used to estimate the fair value. The fair value hierarchy has the following levels:

- Level 1 – fair value based on quoted prices in active markets.
- Level 2 – fair value estimated using valuation techniques that use market-observable inputs other than quoted market prices.
- Level 3 – fair value estimated using inputs that are not based on observable market data.

Financial instruments recorded at fair value, subsequent to their initial recognition, include the following:

- Short-term investments are composed entirely of T-Bills held as part of ATBSI's liquidity management program. The market values of T-Bills are provided to ATBSI by a third party. Prices are determined based on recent activity in an active over the counter market. These short-term investments amounting to $37,968 (March 31, 2016 – $41,976) are classified as level 1 under the fair value hierarchy.

- **The fair value of the LTIP component of the incentive compensation payable amounting to $798 (March 31, 2016 – $912) is determined by discounting the expected future obligation of the grants using an internal hurdle rate of 10% per annum. The LTIP obligation has been classified as level 2 under the fair value hierarchy.**

There have been no transfers between levels during the year.

ii Financial Risk Management

ATBSI's financial instruments consist of cash, short-term investments, clients' cash held in trust, due from (to) clients, due from (to) brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to ATB advisors, miscellaneous receivables, accrued liabilities, commissions payable, incentive compensation payable, and due to ATB.

ATBSI's financial instruments are exposed to a variety of financial risks: market risk, credit risk and liquidity risk. ATBSI's overall risk management program focuses on the unpredictability of financial and economic markets and seeks to minimize potential adverse effects on ATBSI's financial performance. Risk management is carried out by financial management in conjunction with overall Company governance.

Market Risk

Market risk is the risk that fair value or future cash flows of financial instruments will fluctuate because of changes in market prices. There are three types of market risk: currency risk, interest rate risk, and price risk.

Currency Risk

Foreign currency risk arises from the fluctuations in foreign exchange rates and the degree of volatility of these rates relative to the Canadian dollar. ATBSI can have material amounts of financial instruments denominated in foreign currencies. Risk exists that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. ATBSI does not use derivative instruments to reduce exposure to foreign exchange risk.

As at March 31, 2017 and 2016 US dollar denominated balances amounted to:

	US$ March 31, 2017	US$ March 31, 2016
Cash	**772**	711
Due from clients	**57**	194
Due from brokers and dealers	**153**	144
Client fees receivable	**29**	-
Miscellaneous receivables	**-**	96
Due to clients	**(322)**	(375)
Due to brokers and dealers	**(159)**	(182)
Accrued liabilities	**(5)**	(40)
Net Total	**525**	548

A 5% change in US exchange rates would result in a foreign exchange gain or loss of approximately $26 (March 31, 2016 – $27).

Interest Rate Risk

ATBSI is subject to interest rate cash flow risk as its amount due to ATB (note 6(i)) and short-term investments are subject to interest rate fluctuations and the degree of volatility in these rates. ATBSI is exposed to interest rate risk as the fair value of its loans to ATB advisors and LTIP will fluctuate as a result of changes in market interest rates. ATBSI does not currently hold any financial instruments that mitigate this risk and management does not believe that the impact of interest rate fluctuations will be significant.

As at March 31, 2017, if interest rates were to change by 1%, the change in interest expense on the amount due to ATB (note 6(i)), excluding PILOT (note 6(ii)), would be approximately $2 (March 31, 2016 – $6).

As at March 31, 2017, ATBSI held $37,968 (March 31, 2016 – $41,976) in highly liquid T-Bills. At March 31, 2017, the two series of T-Bills held were both earning yields of 52bps until they mature on May 18, 2017 and June 15, 2017 respectively. As at March 31, 2017 if interest rates were to change by 25bps, the change in interest income would be approximately $95 (March 31, 2016 – $105).

Price Risk

ATBSI is not exposed to financial market price risk as no financial instruments were held by the Company at March 31, 2017 and 2016 that will fluctuate as a result of changes in market prices.

Credit Risk

Credit risk is the risk that the counter party to a financial asset will default resulting in a financial loss to ATBSI. ATBSI is exposed to credit risk primarily through its cash, short-term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to ATB advisors, and miscellaneous receivables.

Cash is on deposit with ATB, an Alberta Crown Agent and clients' cash held in trust is on deposit with a reputable financial institution from which management believes the risk of loss is remote.

Short-term investments consisting of T-Bills are on deposit with a reputable securities depository from which management believes the risk of loss is remote.

The credit risk inherent in due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, and miscellaneous receivables is effectively mitigated by ATBSI's diverse customer and trading counterparty base, and the creditworthiness of the counterparties. Management believes credit risk on these balances is low based on low historical credit losses on these balances. The risk is also mitigated by the fact these balances are on average collected within 60 days of becoming due. Management has not provided an allowance for doubtful accounts on these balances as it believes collectability is reasonably assured.

The inherent risk on due from affiliates is effectively mitigated by the fact management is involved in the operations of these entities from which the Company is owed.

The credit risk inherent on the loans to ATB advisors is effectively mitigated as any amounts past due may be offset against compensation owed to these advisors. Management has provided an allowance of $27 (March 31, 2016 – $37) for doubtful accounts.

The Company's maximum credit exposure is $113,970 (March 31, 2016 – $97,158) which is the sum of cash, short-term investments, clients' cash held in trust, due from clients, due from brokers and dealers, client fees receivable, trailer fees receivable, due from affiliates, loans to ATB advisors, and miscellaneous receivables.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk by closely monitoring the level of cash available to meet its obligations and whether additional funding is required through its credit facilities and short-term investments (note 13) or its parent company, ATB.

The Company's financial liabilities giving rise to liquidity risk which are considered short-term (due on demand or within 30 days) include due to clients, due to brokers and dealers, accrued liabilities, commissions payable, incentive compensation payable, and due to ATB.

4. Accounting Changes

New Accounting Standards and Interpretations not yet Adopted

IAS 7 *Statement of Cash Flows*

On January 29, 2016, IASB published amendments to IAS 7 *Statement of Cash Flows*. These amendments are intended to provide more information over the entity's financing activities. The update will also require additional disclosure over the changes in liabilities arising from financing activities.

ATBSI has assessed the impact of adopting this amendment, which is effective for annual periods beginning on or after January 1, 2017, with earlier application being permitted and concluded it will not have a material impact on the Company's financial statements.

IFRS 9 *Financial Instruments*

In July 2014, the IASB issued the final version of IFRS 9 *Financial Instruments*, that will replace the guidance in IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 includes guidance on the classification and measurement of financial assets and liabilities, impairment, and hedge accounting.

Classification and Measurement

IFRS 9 classifies financial assets based on the contractual cash flow characteristics and the business model for managing the financial assets. There are three main categories which determine how financial assets are measured after initial recognition: amortized cost, fair value through other comprehensive income (FVOCI), and fair value through profit or loss. The classification and measurement for financial liabilities remain largely unchanged from the IAS 39 requirements, except for when the fair-value option is elected.

Impairment

IFRS 9 introduces a new impairment model based on expected credit losses. The model will apply to all financial assets, which includes amortized cost financial assets, debt securities classified as FVOCI, and off-balance-sheet loan commitments and financial guarantees, with the most significant impact to loans. Financial assets classified or designated at fair value through profit or loss will be excluded from the new impairment model.

ATBSI is currently assessing the impact of the standard, which is effective for annual periods beginning on or after January 1, 2018.

IFRS 15 *Revenue from Contracts with Customers*

The IASB has issued a new standard for the recognition of revenue. This will replace IAS 18 which covers contracts for goods and services and IAS 11 which covers construction contracts.

The new standard is based on the principle that revenue is recognized when control of a good or service transfers to a customer—so the notion of control replaces the existing notion of risks and rewards.

The standard permits a modified retrospective approach for the adoption. Under this approach entities will recognize transitional adjustments in retained earnings on the date of initial application, without restating the comparative period. They will only need to apply the new rules to contracts that are not completed as of the date of initial application.

ATBSI is currently assessing the impact of the amendments, which are effective for annual periods beginning on or after January 1, 2018.

5. Due from Affiliates

In the normal course of operations, ATBSI receives trailing commissions and collects client management fees on behalf of ATBIM, and receives referral fees from ATBIA. ATBIM and ATBIA may pay for certain expenses on behalf of ATBSI. Alternatively, ATBSI may pay for certain expenses on behalf of ATBIM and ATBIA. These amounts are duly recorded as payables and receivables in each of ATBSI's, ATBIM's, and ATBIA's accounts. The amounts due from affiliates arising from these transactions are generally settled by the following month and are not subject to interest charges.

The amounts due from affiliates are as follows:

	March 31, 2017 $	March 31, 2016 $
Due from ATBIM	**354**	1,076
Due from ATBIA	**24**	16
	378	1,092

6. Due to ATB

i Amounts Due to ATB and Incurred in the Normal Course of Operations

In the normal course of operations, ATB pays certain expenses and collects certain revenues on behalf of ATBSI. The amounts due to ATB are generally settled in the following month. The amounts due to ATB arising from these transactions are as follows:

	March 31, 2017 $	March 31, 2016 $
Due to ATB	**3,829**	3,639

The amount due to ATB, less PILOT (note 6(ii)), is subject to interest charges at ATB's prime lending rate. Interest is calculated in the following month based on all amounts owing at March 31, 2017. The prime lending rate at March 31, 2017 was 2.70% (March 31, 2016 – 2.70%).

ii Payment in Lieu of Tax (PILOT)

Pursuant to the *ATB Act*, the Government of Alberta may assess a charge to ATB as prescribed by the *ATB Regulation*. The *ATB Regulation* defines the charge to be an amount equal to 23% of ATB's consolidated net income as reported in its audited annual financial statements. The payment in lieu of tax ("PILOT") is calculated as 23% of net income reported under IFRS.

For the year ended March 31, 2017, ATBSI accrued and incurred an expense of $3,623 (March 31, 2016 – $3,034) for PILOT. The amount owing for PILOT is not subject to interest and will be paid to ATB no later than June 30, 2017.

7. Software and Computer Equipment

	Computer Equipment $	Computer Equipment under development $	Software $	Software under development $	Total $
Cost					
Balance at April 1, 2015	1,491	-	18,952	1,368	21,811
Additions	-	-	1,923	2,644	4,567
Transfer to completed asset	-	-	-	(1,840)	(1,840)
Balance at March 31, 2016	1,491	-	20,875	2,172	24,538
Balance at April 1, 2016	**1,491**	**-**	**20,875**	**2,172**	**24,538**
Additions	**-**	**15**	**5,485**	**4,321**	**9,821**
Transfer to completed asset	**-**	**-**	**-**	**(5,485)**	**(5,485)**
Balance at March 31, 2017	**1,491**	**15**	**26,360**	**1,008**	**28,874**
Depreciation					
Balance at April 1, 2015	862	-	11,122	-	11,984
Amortization for the year	108	-	2,398	-	2,506
Balance at March 31, 2016	970	-	13,520	-	14,490
Balance at April 1, 2016	**970**	**-**	**13,520**	**-**	**14,490**
Amortization for the year	**108**	**-**	**3,019**	**-**	**3,127**
Balance at March 31, 2017	**1,078**	**-**	**16,539**	**-**	**17,617**
Carrying Amounts					
Balance at March 31, 2016	521	-	7,355	2,172	10,048
Balance at March 31, 2017	**413**	**15**	**9,821**	**1,008**	**11,257**

Amortization expense charged to the statement of operations and comprehensive income for the year ended March 31, 2017 was $3,127 (March 31, 2016 – $2,506). There were no retirements or impairments recognized during the year ended March 31, 2017 (March 31, 2016 – $nil).

8. Share Capital (shares not in thousands)

Authorized:

Unlimited number of Class A voting, common shares without nominal or par value

Unlimited number of Class B non-voting, common shares without nominal or par value

Unlimited number of 10% non-cumulative, redeemable, non-voting, preferred shares without nominal or par value, redeemable at $100 per share

Issued and outstanding:

	March 31, 2017	March 31, 2016
Class A common shares #	**78,995,100**	78,995,100
Amount	**$26,391**	$26,391

9. Capital Risk Management and Restrictions

ATBSI's objectives in managing its capital, which is defined as shareholder's equity, are:

- to safeguard ATBSI's ability to operate as a going concern by maintaining adequate residual capital as prescribed by the ATB Investor Services Board of Directors from time to time;
- to provide financial capacity and flexibility to meet its strategic objectives; and
- to maintain adequate risk adjusted capital as required by IIROC.

The capital structure of ATBSI is managed and adjusted to reflect changes in economic conditions. In order to maintain or adjust the capital structure, adjustments may be made to the number of new common shares issued. In support thereof, management reviews the financial position of ATBSI on a monthly and cumulative basis. ATBSI works towards managing its capital objectives to the extent possible while facing the challenges of market conditions. ATBSI's capital management objectives have not changed over the periods presented.

Regulatory Capital

IIROC sets and monitors capital requirements for the Company to protect its clients and counterparties. The Company is required to maintain a prescribed minimum level of risk adjusted capital ("RAC") in order to be able to meet its liabilities and pass early warning tests. RAC is calculated in accordance with requirements as IIROC may from time to time prescribe. RAC is monitored daily and calculated weekly by ATBSI to ensure compliance with IIROC requirements.

There were no changes to IIROC rules that significantly impacted the Company's calculation of RAC during the year.

As at March 31, 2017, ATBSI had RAC of $16,749 (March 31, 2016 – $17,786), which exceeded regulatory requirements set out by IIROC. ATBSI's policy is to maintain regulatory capital at levels in excess of IIROC requirements to provide a buffer for unexpected market conditions, as well as to have sufficient capital for future business expansion.

ATBSI also met all the early warning tests as prescribed by IIROC.

10. Intercorporate Management Fees

An intercorporate management fee ("management fee") was implemented in order for ATBSI to more appropriately distribute the costs of shared management, executive, strategic and supporting costs with ATBIM and ATBIA. The management fee is calculated by determining the total amount of shared costs and charging them to each of ATBSI, ATBIM and ATBIA according to the proportion of total combined revenue that each company generates (net of eliminations) on a year-to-date basis. The management fee charged by ATBSI to ATBIM and ATBIA is subject to a 25% markup. This methodology is intended to better assign costs proportional to the benefit generated by the shared services.

11. Related-Party Transactions

In the normal course of operations, ATBSI earns income in the form of trailer fees, interest revenue and other income from ATB, ATBIA and ATBIM. ATB also charges ATBSI for various administrative and selling services, as well as charging interest on amounts owing to ATB (note 6(i)).

A yearly summary of these transactions is as follows:

Related Party	Transactions	Recorded as	March 31, 2017	March 31, 2016
	Revenue		$	$
ATBIM	Trailer fees	Mutual fund commissions	**59,779**	55,744
ATBIM	Referral fees	Client referral fees	**2,961**	2,546
ATBIM	Management fees	Intercorporate management fees	**10,136**	9,023
ATBIA	Insurance referrals	Client referral fees	**74**	124
ATBIA	Management fees	Intercorporate management fees	**98**	108
ATB	HISA trailer fees	Mutual fund commissions	**1,884**	2,000
ATB	GIC referral fees	GIC commissions	**3,059**	2,851
ATB	Interest revenue	Interest revenue	**36**	35
			78,027	72,431
	Administration and Selling Expenses			
ATB	Partnership	Salaries and employee benefits	**100**	122
ATB	Achievement notes recovery	Salaries and employee benefits	**(48)**	(44)
ATB	Rent	General and administrative expenses	**3,182**	2,978
ATB	Community sponsorships	General and administrative expenses	**898**	709
ATB	IT	IT infrastructure and services	**3,182**	3,182
ATB	Professional services	Professional fees	**855**	846
ATBIM	Achievement notes recovery	Salaries and employee benefits	**(14)**	(16)
ATBIA	Achievement notes recovery	Salaries and employee benefits	**(1)**	(2)
			8,154	7,775
	Interest Expense and Standby fees			
ATB	Interest expense and standby fees	Banking and interest charges	**39**	44

The above transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Compensation of Key Management Personnel

Key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any director (whether executive or otherwise) of that entity.

Key management personnel compensation comprises:

	March 31, 2017 $	March 31, 2016 $
Short-term employee benefits	**2,802**	2,559
Deferred compensation	**1,162**	732
Retirement and post employment benefits	**359**	364
Severance	**523**	-
	4,846	3,655

A portion of the compensation paid by ATBSI for key management personnel is primarily recovered by the Company through the management fees (note 10) charged to ATBIM and ATBIA.

Employee Achievement Notes

ATB sells Principal at Risk Achievement Notes to certain eligible employees as an incentive for promoting the growth of the subsidiaries of ATB that provide, or will in the future provide, services under the ATB Investor Services brand name. Under this plan, eligible employees were provided an opportunity to purchase a 25-year note with a value linked to the fair market value of certain ATB subsidiaries, including ATBSI. Holders of these notes do not have an ownership interest in ATB or its subsidiaries, nor do they have the rights of a direct holder of an interest in ATB or its subsidiaries.

Each note holder is entitled to:

- A cash payment at maturity representing the then-current value of their note.
- Submit a request to sell notes during the annual Transaction Window (subject to a 3-year vesting period and additional restrictions on ATBIS executives); and,
- Cash distributions, if any, based on the formula set out in the note.

Upon an employee's termination, the designated acquirer under the plan has the right, but not the obligation, to acquire notes from the employee at the price applicable at the termination date.

The notes are not guaranteed under the deposit guarantee provided by the Crown in right of Alberta, and there is the risk, if the fair market value of ATBIS reduces, that the note holder will lose some or all of the original investment.

There is no public market for these notes, and the ATBIS valuation is based on a model prepared by an external consultant and updated annually.

As at March 31, 2017 the liability recorded by ATB with regards to achievement notes is $29,158 (March 31, 2016 – $29,611). The $453 (March 31, 2016 – $6,482) change in the liability from the prior year is a result of $1,654 (March 31, 2016 – $2,907) in new subscriptions, $7,224 (March 31, 2016 – $578) in achievement notes redeemed during the year and a corresponding increase of $5,117 (March 31, 2016 – $4,153) due to appreciation of the achievement notes.

12. Employee Future Benefits

Defined contribution plans

ATBSI provides future benefits to current and past employees through defined contribution plans. All defined contribution plan members are in a flexible pension plan which is a combination of retirement savings in a registered defined contribution pension plan with a wealth accumulation component. This additional component allows employees to allocate funds to their ATB defined contribution pension plan, RRSP, RESP, or ATB mortgage. For the purposes of reporting, all of the funding contributions are reflected as defined contribution pension plan expense within salaries and employee benefits and are expensed as they become due. For the year ended March 31, 2017, expenses related to the plan were $4,740 (March 31, 2016 – $4,185).

Long-term incentive plan

As at March 31, 2017, the total obligation, vested portion, and present value of the grants which have vested are as follows:

Fiscal Year Issued	LTIP Grants Issued $	Allowance for Early Termination $	Vested $	PV of the Grants Vested $
2015	424	21	403	403
2016	405	20	256	233
2017	618	31	196	162
Total	**1,447**	72	855	798

The LTIP grants issued include the appreciation and depreciation of those awards. Of the $798 (March 31, 2016 – $912) present value of the obligation that has vested, $403 (March 31, 2016 – $495) is included in the current portion of the incentive compensation payable and $395 (March 31, 2016 – $417) is included in the long-term portion. The related expense of $488 (March 31, 2016 – $478) is recorded in incentive compensation expenses.

Loans to ATB advisors

Loans to ATB advisors bear interest of 1% and on initial recognition the loans are fair valued using market rates of interest of 9%. The current portion of the present value discount is recorded in prepaid expenses and the long-term portion is recorded as deferred employee benefits. These amounts will be amortized and recorded as salaries and employee benefits expense over the life of the loans.

	March 31, 2017 $	March 31, 2016 $
Face value – current	**305**	267
Present value discount – current	**(60)**	(57)
Allowance for doubtful accounts	**(7)**	(15)
Other expenses	**-**	30
Loans to ATB advisors – Current	**238**	225
Face value – long-term	**856**	1,090
Present value discount – long-term	**(155)**	(206)
Allowance for doubtful accounts	**(20)**	(22)
Loans to ATB advisors – Long-term	**681**	862

13. Credit Facility

ATBSI has access to a $10,000 (March 31, 2016 – $10,000) unsecured operating loan facility with ATB. Interest on the facility is calculated based on prime less 0.25%, which is 2.45% at March 31, 2017 (March 31, 2016 – 2.45%). No amounts have been drawn on the facility at March 31, 2017 (March 31, 2016 – $nil) and a standby fee of $25 (March 31, 2016 – $25) was paid during the year on the undrawn portion.

14. Provisions

The claim that ATBSI filed in January 2013 with their insurance agents in regards to a pending lawsuit was settled in October 2016. The Company's liability, with respect to this matter, was equal to the $100 deductible under its professional liability insurance policy.

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CREDIT UNION DEPOSIT GUARANTEE CORPORATION

Financial Statements

Years Ended December 31, 2016

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These Credit Union Deposit Guarantee Corporation (CUDGC) Financial Statements are a copy from the CUDGC 2016 Annual Report. A complete copy of the CUDGC Annual Report which includes Management's Discussion and Analysis (MD&A) can be obtained directly from the CUDGC website at www.cudgc.ab.ca.

Independent Auditor's Report

To the Directors of the Credit Union Deposit Guarantee Corporation

AUDITOR GENERAL
Alberta

Report on the Financial Statements

I have audited the accompanying financial statements of the Credit Union Deposit Guarantee Corporation, which comprise the statements of financial position as at December 31, 2016, and the statements of comprehensive income, changes in equity and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Credit Union Deposit Guarantee Corporation as at December 31, 2016, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

March 15, 2017

Edmonton, Alberta

STATEMENT OF FINANCIAL POSITION

(Thousands of dollars)

As at December 31

	Notes	2016	2015
ASSETS			
Cash and cash equivalents	4	$ 6,115	$ 5,460
Assessments receivable		3,398	5,588
Accrued interest receivable and prepaid expenses		1,296	1,254
Investments	5, 6	320,942	290,108
Property, equipment and intangible assets		193	278
TOTAL ASSETS		**$ 331,944**	**$ 302,688**
LIABILITIES			
Accounts payable and accrued liabilities		$ 510	$ 561
Provision for financial assistance	7	-	131
Current tax liability		77	280
Deferred tax liability		78	1,352
Unclaimed credit union balances	8	2,409	1,557
TOTAL LIABILITIES		**3,074**	**3,881**
EQUITY			
Deposit guarantee fund		328,512	293,906
Accumulated other comprehensive income		358	4,901
TOTAL EQUITY		**328,870**	**298,807**
TOTAL LIABILITIES AND EQUITY		**$ 331,944**	**$ 302,688**
Commitments	14		

The accompanying notes are part of these financial statements.

Approved by the Board: March 15, 2017

Original signed by
Herb Der, Director

Original signed by
Loraine Oxley, Director

STATEMENT OF COMPREHENSIVE INCOME

(Thousands of dollars)

For the Years Ended December 31

	Notes		2016		2015
NET INCOME					
Revenue					
Assessment revenue	9	$	31,178	$	33,485
Investment income	9		11,281		10,653
			42,459		**44,138**
Expenses					
Administration expenses	10		7,021		6,982
(Recovery of) Provision for financial assistance	7		(131)		68
			6,890		**7,050**
Income before income taxes			35,569		37,088
Income tax expense	11		963		812
NET INCOME		**$**	**34,606**	**$**	**36,276**
OTHER COMPREHENSIVE LOSS, NET OF TAX					
Items that will be reclassified to net income					
Net unrealized gain (loss) on available-for-sale financial instruments					
Other comprehensive (loss) income			(4,736)		1,249
Income tax recovery (expense)			1,034		(343)
Transfer of net gain			(1,085)		(1,805)
Income tax expense			244		397
OTHER COMPREHENSIVE LOSS, NET OF TAX			**(4,543)**		**(502)**
COMPREHENSIVE INCOME		**$**	**30,063**	**$**	**35,774**

The accompanying notes are part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

(Thousands of dollars)

For the Years Ended December 31

		Deposit Guarantee Fund		Accumulated Other Comprehensive Income		Total Equity
Balance as at December 31, 2014	**$**	**257,630**	**$**	**5,403**	**$**	**263,033**
Net income		36,276		-		36,276
Other comprehensive loss, net of tax		-		(502)		(502)
Balance as at December 31, 2015	**$**	**293,906**	**$**	**4,901**	**$**	**298,807**
Net income		34,606		-		34,506
Other comprehensive loss, net of tax		-		(4,543)		(4,543)
Balance as at December 31, 2016	**$**	**328,512**	**$**	**358**	**$**	**328,870**

The accompanying notes are part of these financial statements.

STATEMENT OF CASH FLOWS

(Thousands of dollars)

For the Years Ended December 31

	2016	2015
Operating activities		
Assessments received	$ 33,367	$ 33,447
Investment income received	8,170	8,710
Financial assistance recovered	-	13
Income taxes paid	(1,162)	(938)
Paid to suppliers and employees	(6,068)	(6,570)
Net cash flows from operating activities	**34,307**	**34,662**
Investing activities		
Purchase of investments, net	(33,578)	(36,759)
Purchase of property, equipment and intangible assets, net	(74)	(142)
Net cash flows used in investing activities	**(33,652)**	**(36,901)**
Increase (decrease) in cash	655	(2,239)
Cash and cash equivalents at beginning of year	5,460	7,699
Cash and cash equivalents at end of year	**$ 6,115**	**$ 5,460**

The accompanying notes are part of these financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 1 Nature of Organization

The Credit Union Deposit Guarantee Corporation ("the Corporation") operates under the authority of the *Credit Union Act*, Chapter C-32, revised Statutes of Alberta, 2000. The mandate of the Corporation is to provide risk-based regulatory oversight and a deposit guarantee to enable a safe and sound credit union system in Alberta.

The Corporation is located in Canada. The address of the Corporation's office is 20th Floor, 10104 – 103 Avenue, Edmonton, Alberta T5J 0H8.

To fulfill its mandate the Corporation undertakes functions set out in the *Credit Union Act* and maintains the Deposit Guarantee Fund ("the Fund"). The Corporation receives assessment revenue from credit unions to support the Deposit Guarantee Fund.

The *Credit Union Act* provides that the Government of Alberta ("the Province") will ensure that the obligations of the Corporation are carried out. As at December 31, 2016, credit unions in Alberta held deposits, including accrued interest, totaling $21,114,111 (2015: $20,909,708).

In cases where a credit union is experiencing financial difficulty, the Corporation implements an intervention strategy that may result in placing the credit union under supervision. The Corporation provides financial assistance, support and direction in planning, policy and operational matters for supervised credit unions.

NOTE 2 Basis of Presentation

The financial statements are prepared in accordance with International Financial Reporting Standards ("IFRS"), as issued by the International Accounting Standards Board ("IASB") and were approved by the Board of Directors on March 15, 2017.

Statements and notes are in Canadian dollars which is the Corporation's functional currency and expressed in thousands of dollars.

The Corporation's financial statements include estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The most significant areas requiring the use of estimates are the provision for financial assistance (Note 7: Provision for Financial Assistance), assessments receivable and the fair value of investments (Note 6: Fair Value of Financial Instruments). Actual results may differ from these estimates depending upon certain future events and uncertainties.

The Corporation presents its Statement of Financial Position in order of liquidity.

NOTE 3 Significant Accounting Policies

Basis of Measurement

The historical cost basis of measurement, except for available-for-sale financial assets that are measured at fair value in the Statement of Financial Position, is used in preparation of the financial statements.

Financial Instruments

Financial assets and financial liabilities are initially recognized at fair value and their subsequent measurement is dependent on their classification as described below.

Classification depends on the purpose for which the financial instruments were acquired or issued, characteristics and the Corporation's designation of such instruments.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Financial Instruments (continued)

Classifications are:

Loans and receivables	Loans and receivables are recorded at amortized cost. Interest received is accounted for using the effective interest method.	Cash and cash equivalents Assessments receivable Accrued interest receivable
Available-for-sale	Available-for-sale financial assets are recorded at fair value with unrealized gains and losses included in accumulated other comprehensive income until realized when the cumulative gain or loss is transferred to net income. Investments are recognized initially on the trade date at which the Corporation becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, they are measured at fair value. Changes other than impairment losses are recognized in comprehensive income and presented within equity. For available-for-sale financial assets that do not have quoted market prices, cost represents reasonable fair value for these assets.	Investments
Financial liabilities	Financial liabilities are recorded at amortized cost which is a reasonable estimate of the fair value of these instruments.	Accounts payable and accrued liabilities Provision for financial assistance Unclaimed credit union balances

Impairment of Financial Assets

Financial assets are assessed for indicators of impairment on a quarterly basis. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- default or delinquency in interest or principal payments; or
- the probability that the borrower will enter bankruptcy or financial re-organization.

For financial assets carried at amortized cost, the amount of the impairment loss recognized is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate.

When a financial asset is considered to be impaired, cumulative losses previously recognized in other comprehensive income are transferred to net income in the period. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through net income. The carrying amount of the investment at the date the impairment is reversed will not exceed what the amortized cost would have been had the impairment not been recognized.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Effective Interest Method

The Corporation uses the effective interest method to recognize investment income or expense which includes premiums or discounts earned on financial instruments.

The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating investment income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including other premiums or discounts) through the expected life of the financial instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

Transaction Costs

Transaction costs related to financial assets and liabilities are expensed as incurred as these do not represent material amounts.

Property, Equipment and Intangible Assets

Property, equipment and intangible assets are recorded in the Statement of Financial Position at historical cost, less accumulated depreciation, amortization and impairment losses.

Cost includes the expenditure that is directly attributable to the acquisition of the asset. When parts of an item of property and equipment have materially different useful lives, they are accounted for as separate items (major components) of property and equipment. Assets which are fully depreciated are maintained on the books at original cost less accumulated depreciation and show zero net book value until they are disposed of at which time they are removed from the books.

Depreciation and impairment losses are recognized in net income. Depreciation and amortization have been calculated on the following basis:

Furniture and equipment	Five year straight line
Computer equipment	Three year straight line
Leasehold improvements	Straight line over lease term
Intangible assets[1]	
Software without maintenance agreement	Three year straight line
Software with maintenance agreement	Five year straight line

[1] Intangible assets include the purchase of computer software

Gains and losses on disposal of property, equipment and intangible assets are determined by comparing the proceeds from disposal with the carrying amount of the property, equipment and intangible assets.

Provision for Financial Assistance

A provision is recognized if, as a result of a past event, the Corporation has a present legal or constructive obligation that can be estimated reliably, and it is probable that the outflow of economic benefits will be required to settle the obligation. The amount, timing and form of financial assistance that may be required for credit unions are dependent on future events and outcomes. Outcomes that may require financial assistance are stabilization, amalgamations, arrangements, liquidations or dissolutions. The Corporation provides for a provision for financial assistance based on three main components, as follows:

1. Where the need for financial assistance becomes likely and the amount for specific credit unions can reasonably be estimated.
2. Where the amount can be reasonably estimated and arises from indemnity agreements entered into with credit unions due to outcomes described above.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Provision for Financial Assistance (continued)

3. Where the Corporation has determined there is the potential for financial assistance based on an analysis of the inherent risks in the credit union system.

A contingent liability for financial assistance arises from a liability of sufficient uncertainty with respect to the probability and amount of the expected outflows such that it does not qualify for recognition as a provision. Depending on the probability of loss occurring, contingent liabilities may be disclosed in the notes to the financial statements. Contingent liabilities may be established based on potential individual credit union assistance payments and/or an assessment of the inherent risk in the credit union system.

Provisions and contingencies for financial assistance consist of the calculation of potential liabilities and contingencies to meet the IFRS standards. Calculations include management's judgment based on historical information and other factors. Credit union analysis for potential liabilities includes a review of all credit unions based on key financial and risk information and provisions related to amalgamations or arrangements and any indemnity agreements.

Revenue Recognition

Assessment Revenue

Credit union deposit guarantee assessments are classified as revenue and are recognized when:

- The amount of revenue can be measured reliably; and
- It is probable that the economic benefit will flow to the Corporation.

Credit union deposit guarantee assessments are recognized when earned. These regular assessments are determined quarterly, and accrued monthly. Credit union payments are received four times per year.

Investment Income

Interest and dividend income from a financial asset is recognized when it is probable that the economic benefits will flow to the Corporation and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to principal outstanding at the applicable effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition. Dividend income is recognized when it is known that a dividend has been declared.

Employee Benefits

Defined Contribution Plan

The Corporation has a defined contribution plan and pays fixed contributions to a separate entity with no legal or constructive obligation to pay further amounts. Obligations for contributions to defined contribution pension plans are recognized as an employee benefit expense on the Statement of Comprehensive Income in the periods during which services are rendered by employees.

Short-term Employee Benefits

Short-term employee benefit obligations are measured at cost on an undiscounted basis and are expensed as the related service is provided.

Leases

Operating leases are leases whose terms do not transfer the risks and rewards of ownership to the lessee. Operating lease payments, net of any lease inducements, are recognized on a straight-line basis over the lease term.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Income Taxes

The Corporation is a deposit insurance corporation for income tax purposes and pays income taxes on its taxable income at the statutory rate prescribed for deposit insurance corporations. Its taxable income excludes deposit guarantee assessments and financial assistance recoveries and no deduction may be made for financial assistance payments.

The Corporation records income taxes based on the tax liability method which is the amount expected to be paid to or recovered from the taxation authorities.

Current Tax

The current tax liability is based on taxable income for the year. Taxable income differs from net income as reported in the Statement of Comprehensive Income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Corporation's current tax liability is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred Tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax basis used in the computation of taxable income. Deferred tax liabilities are the amounts of income taxes payable in future periods in respect of temporary taxable differences.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax assets and liabilities reflects the tax consequences that would follow from the manner in which the Corporation expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Corporation intends to settle its current tax assets and liabilities on a net basis.

Comprehensive Income and Accumulated Other Comprehensive Income ("AOCI")

Comprehensive income is comprised of net income and other comprehensive income. For the Corporation, other comprehensive income includes net unrealized gains and losses on investments classified as available-for-sale.

Amounts recognized in other comprehensive income will eventually be transferred to the Statement of Comprehensive Income and reflected in net income as gains or losses once available-for-sale investments are realized.

Comprehensive income and its components are disclosed in the Statement of Comprehensive Income. The Statement of Changes in Equity present the continuity of AOCI. The cumulative amount of other comprehensive income recognized, AOCI, represents a component of equity on the Statement of Financial Position.

Future Changes in Accounting Policies

A number of new standards, amendments and interpretations are not yet effective for the year ended December 31, 2016, and have not been applied in preparing these financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 3 Significant Accounting Policies (continued)

Future Changes in Accounting Policies (continued)

IAS 12 – Income Taxes Amendment

On January 19, 2016, the IASB issued amendments to IAS 12 – Income Taxes to clarify that unrealized losses related to debt instruments measured at fair value in the financial statements but reported at cost for tax purposes can give rise to deductible temporary differences. The amendments also clarify that carrying amount of an asset does not limit the estimation of probable future taxable profits and that when comparing deductible temporary differences with future taxable profits, the future taxable profits excludes tax deductions resulting from the reversal of those deductible temporary differences. The amendments are effective for annual periods beginning on or after January 1, 2017. The Corporation is evaluating the impact of the amendment will have on its financial statements.

IFRS 9 – Financial Instruments

On July 2014, the IASB issued the final version of IFRS 9 – Financial Instruments to replace the classification and measurement, impairment and hedge accounting phases of IAS 39 – Financial Instruments: Recognition and Measurement. The new standard includes requirements of the classification and measurement of financial assets and liabilities, expected credit losses model that replaces the incurred loss impairment model used currently and the final hedging part of IFRS 9 that was issued in November 2013. The Standard supersedes all previous versions of IFRS 9, is applied retrospectively and is effective for periods beginning on or after January 1, 2018. The Corporation is evaluating the impact the standard will have on its financial statements.

IFRS 15 – Revenue from Contract with Customers

On May 2014, the IASB issued IFRS 15 – Revenue from Contracts with Customers which provides a single, principles based five-step model to be applied to all contracts with customers. The model specifies that revenue should be recognized when an entity transfers control of goods or services to a customer at the amount the entity expects to be entitled. The standard provides guidance on the point in which revenue is recognized, accounting for variable consideration, costs of fulfilling and obtaining a contract, and various related matters. The revenue arising from financial instruments is not required to apply the revenue requirements in IFRS 15. The standard is effective for annual reporting periods beginning on or after January 1, 2018 with early application permitted. The Corporation is evaluating the impact of the standard on its financial statements.

IFRS 16 – Leases

On January 13, 2016, the IASB published the new standard, IFRS 16 – Leases. The new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases for both the lessee and the lessor. The new standard introduces a single lessee accounting model that requires the recognition of all assets and liabilities arising from a lease. IFRS 16 supersedes the requirements of IAS 17 – Leases, IFRIC 4 – Determining whether an Arrangement contains a Lease, SIC 15 – Operating Leases Incentives and SIC 27 – Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard is effective for periods beginning on or after January 1, 2019, with earlier adoption permitted if IFRS 15 – Revenue from Contracts with Customers has also been applied. The Corporation is evaluating the impact of the standard on its financial statements.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 4 Cash and Cash Equivalents

Cash and cash equivalents are on deposit in the Consolidated Cash Investment Trust Fund ("CCITF") of the Province which is managed with the objective of providing competitive interest income while maintaining appropriate security and liquidity of capital. The portfolio is comprised of high-quality short-term and mid-term fixed-income securities with a maximum term-to-maturity of three years. As at December 31, 2016, securities held in CCITF have a rate of return of 0.9% per annum (2015: 0.9%).

NOTE 5 Investments

	December 31, 2016				December 31, 2015			
		Fair Value		Cost		Fair Value		Cost
Directly held								
Securities issued or guaranteed by:								
Canada	$	66,395	$	67,777	$	20,206	$	20,237
Provinces		89,961		88,525		88,794		85,559
Financial institutions		71,354		70,380		94,248		92,533
Infrastructure		3,156		3,417		6,470		6,392
Asset backed securities and other[1]		39,795		39,624		33,913		33,624
Bond Pool		50,281		50,757		46,477		45,480
Total	**$**	**320,942**	**$**	**320,480**	**$**	**290,108**	**$**	**283,825**

[1] Other securities total $115 (2015: $115) are shares of Credit Union Central Alberta Limited at $100 (2015: $100) and Concentra Financial Services Association at $15 (2015: $15).

Investment Risk Management

The Corporation established an investment policy that is reviewed annually. In accordance with the Corporate Investment Policy, the Corporation manages investment risk by maintaining a conservative portfolio, and engages Alberta Investment Management Corporation ("AIMCo"), an experienced investment manager to manage the portfolio. Compliance with the policy is monitored by the fund manager and is reported to the Board of Directors on a quarterly basis.

The Corporation has a segregated investment portfolio and owns unit in a Bond Pool established and managed by AIMCo. The segregated portfolio consists of high quality Canadian fixed income and debt related investments. The Bond Pool consists of a mix of assets with a credit rating of BBB or better, debt securities of private companies, private placements and mortgage-backed securities. The Bond Pool has a market-based unit value that is used to allocate income to participants and to value purchases and sales of pool units. The Corporation's units in the Bond Pool represents approximately 0.7% (2015: 0.7%) of the Bond Pool's outstanding units. The investment in units of the Bond Pool can be liquidated with one week's notice.

As at December 31, 2016, securities directly held (excluding the Bond Pool) have an average effective yield of 1.7% (2015: 1.8%) based on fair value. As at December 31, 2016, securities held by the Bond Pool have an average effective market yield of 2.9% per annum (2015: 3.2%).

The Corporation's rate of return objective is to earn an average return over a rolling four year period on the aggregate investment portfolio of 25 basis points greater ("bps") than the benchmark. As of December 31, 2016, the average return over a rolling four year period over the benchmark is 40 bps (2015: 44 bps).

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 5 **Investments** (continued)

Investment Risk Management (continued)

The Corporation's investment are exposed to financial risks including credit risk, interest rate and liquidity risk. The main objectives of the Corporation's risk management processes are to properly identify risks and maintain adequate capital in relation to these risks.

i) Credit Risk

Credit risk relates to the possibility that a loss may occur from the failure of another party to discharge its contractual obligation. The Corporation has established specific rules with respect to the credit ratings of counter-parties so that they do not fall below an acceptable threshold. For the segregated portfolio, the Corporation only invests in issuers of debt instruments with a credit rating of A for federal and provincial investments, AA for financial institutions, AAA for asset backed securities and A for infrastructure from recognized credit rating agencies: Standard & Poors ("S&P") or Dominion Bond Rating Service ("DBRS"). DBRS is used to rate most fixed income investments, followed by S&P.

The table below shows the credit risk exposure of the segregated portfolio, by bond rating, at the end of the reporting period.

The credit risk within the Bond Pool is managed by AIMCo in accordance with their policy. The units held are considered investment grade securities as majority of the investments in the Bond Pool are of investment grade quality.

To maintain assurance on the collectability of the assessment revenue, the Corporation monitors the financial strength of the credit unions on a monthly basis. The credit unions are billed quarterly and payments are paid to the Corporation via electronic fund transfers. Historically, there have been no issues of collectability of assessment revenue from any credit union.

ii) Interest Rate Risk

As investments are carried at fair value, they are exposed to fluctuations in fair value. The Corporation is exposed to interest rate fluctuation as a result of normal market risk. To mitigate the interest rate risk, the Corporation's portfolio is positioned defensively on interest rates with shorter duration relative to its benchmark with a view that the current low yield environment is not sustainable, especially in Canada. A one percent increase or decrease is used when reporting interest rates to represent management's assessment of a possible reasonable change in interest rates. Any changes would impact cash flow,

	2016			2015		
Bond Rating	**Fair Value**	**Book Value**	**% of Total**	**Fair Value**	**Book Value**	**% of Total**
AAA	$ 106,075	$ 107,285	39.2%	$ 54,003	$ 53,745	22.2%
AA	59,519	58,558	22.0%	68,730	67,258	28.2%
AAL	52,076	50,948	19.3%	55,504	53,483	22.8%
A	-	-	0.0%	6,788	6,935	2.8%
AH	49,416	49,299	18.3%	58,491	56,809	24.0%
AL	3,460	3,518	1.2%	-	-	0.0%
Total	**$ 270,546**	**$ 269,608**	**100.0%**	**$ 243,516**	**$ 238,230**	**100.0%**

Note: Excludes Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) shares as there is no credit risk associated with these equities

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 5 **Investments** (continued)

Investment Risk Management (continued)

ii) Interest Rate Risk (continued)

term deposits and fixed income securities at the time of maturity and re-investment of individual instruments. An increase or decrease of one percent would result in a decrease or increase of $15,706 (2015: $14,395) in the fair value of total investment if all other variables are constant.

iii) Liquidity Risk

Liquidity risk is the risk of having insufficient financial resources to meet the Corporation's cash and funding requirements in support of the guarantee of deposits at credit unions. The Corporation's principal sources of funds are cash generated from credit union deposit guarantee assessments and interest earned on its investments to meet its financial obligation to guarantee deposits at the credit unions. All of the Corporation's investments are classified as available-for-sale and can readily be sold should the need arise.

The term structure for the segregated and the Bond Pool is presented in the table below:

	Securities		Bond Pool	
	2016	**2015**	**2016**	**2015**
Under 1 year to 5 years	67%	58%	30%	35%
Over 5 years	33%	42%	70%	65%

NOTE 6 Fair Value of Financial Instruments

The table below provides a summary of management's best estimate of the relative reliability of data or inputs used to measure the fair value of the Corporation's financial assets that are carried at fair value on a recurring basis. The measure of reliability is determined based on the following three levels:

Level 1:	**The fair value is based on quoted prices in active markets.**
Level 2:	The fair value is based on inputs other than quoted prices that are observable market data. Generally included in this category would be Government of Canada bonds, provincial government bonds, municipal bonds and chartered bank deposit notes.
Level 3:	The fair value is based on inputs that are not based on observable market data.

	December 31, 2016				December 31, 2015			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Cash (CCITF – fixed income securities)	$ 489	$ 5,609	$ -	$ 6,098	$ 276	$ 5,180	$ -	$ 5,456
Fixed income securities, directly held	74,913	195,633	115	270,661	28,696	214,820	115	243,631
Bond Pool	-	50,281	-	50,281	-	46,477	-	46,477
Total	**$ 75,402**	**$251,523**	**$ 115**	**$327,040**	**$ 28,972**	**$266,477**	**$ 115**	**$295,564**

There were no transfers (2015: Nil) between Level 1 and 2 nor were there changes to the Level 3 assets in the period; therefore a continuity schedule has not been provided.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 6 Fair Value of Financial Instruments (continued)

Valuation Technique and Inputs

Fair value is calculated using independent pricing sources and Canadian investment dealers. The calculation of fair value is based on market conditions or estimates at a point in time and may not be reflective of future fair value. Fair value is an estimated amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

The valuation technique and key inputs used for Level 2 securities for fixed income securities and the Bond Pool are based on a vendor hierarchy:

- Using either spread pricing or curve pricing when direct quotes are not available. Spread pricing involves using interpolated spreads from liquid bonds and applying those to the valuation of illiquid bonds. Curve pricing involves using a variety of different generic quotes and terms to maturity to generate a curve of data points that would then be used to value securities using a linear interpolation.
- Using market observations to calculate evaluated prices for a variety of security types with a 3-pronged approach in the valuation algorithms: direct observations, historical tracking and observed comparables. The results are then weighted and aggregated based on the reliability of each input to arrive at a final evaluated price for that security.

Fair Value Classification of Bond Pool

The Corporation owns units in the Bond Pool and is considered to have exposure to the risks and benefits of those units in the pool and not the underlying investments. The classification of the Bond Pool is therefore determined based on the level that represents the most significant portion of the underlying investments in the entire pool. As a result, the value of the Bond Pool is categorized as Level 2.

Fair Value Measurement of Shares

The shares in Credit Union Alberta Central Limited ($100) and Concentra Financial Services Association ($15) have no specific maturity, are not quoted nor traded in an active market, the shares are issued and redeemed at par value, and there is no observable market data with which to reliably measure a fair value. On this basis, the shares are classified as Level 3 as available-for-sale and the cost (i.e. par value) is considered to be the fair market value of the shares. There are no identifiable observable inputs and thus no inputs from which to determine the relationship to or sensitivity of fair market value to changes in unobservable inputs. During the year, there were no changes to the valuation of the shares (i.e. profit, loss, purchase, sales or transfers).

NOTE 7 Provision for Financial Assistance

The Corporation monitors credit unions experiencing financial difficulty and has a contingent responsibility to provide financial assistance in the outcomes referred to in Note 3: Provision for Financial Assistance. The provision is based on expected loss calculation and is subject to uncertainty surrounding amount. The expected timing of outflows of economic benefit are dependent on future events. As such, actual losses may differ significantly from estimate.

The two loan indemnification agreements provided to credit unions in 2015 expired in October 31, 2016 and no financial assistance was required under these agreements. No indemnification agreement was issued in 2016.

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 8 Unclaimed Credit Union Balances

The unclaimed credit union balances are customer accounts, transferred from credit unions after ten years of inactivity, to the Corporation. The amounts earn monthly interest calculated using the prescribed rate by the *Credit Union Act*. The interest rate used in 2016 is 1% (2015: 1%). After a period of 20 years since an unclaimed balance was transferred to the Corporation without any valid claim having been made, the balance will be transferred to the Province's General Revenue Fund. On that transfer, the person(s) entitled to that money can no longer make a claim.

NOTE 9 Revenue

Assessment Revenue

The Corporation charges quarterly deposit guarantee assessments to credit unions to carry out its legislated mandate. The assessment rate is reviewed every three years. The assessment rate for January to October 2016 is 0.16% and for November and December 2016 is 0.09% (2015: 0.16%) of deposits and borrowings. Assessments received by the Corporation from the largest credit union represent 63% of the total assessments received.

Investment Income

Investment income is as follows:

	2016	2015
Investment and dividend income	$ 10,196	$ 8,848
Net gain on sale of investments	1,085	1,805
Total investment income	**$ 11,281**	**$ 10,653**

For 2016, no adjustments for impairment losses (2015: Nil) were required.

NOTE 10 Administration Expenses

	2016	2015
Salaries and benefits	$ 5,355	$ 5,214
Lease payments	476	502
Professional fees	303	269
Office	196	187
Depreciation and amortization	159	196
Other	142	254
Board and committee fees	149	166
Staff travel	151	146
Board and committee expenses	90	48
Total administration expenses	**$ 7,021**	**$ 6,982**

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 11 Income Tax Expense

The Corporation's statutory income tax rate is 22.5% (2015: 22%). Income taxes differ from the expected result that would have been obtained by applying the combined federal and provincial tax rate to income before taxes for the following reasons:

	2016	2015
Expected income taxes on pre-tax net income at the statutory rate	$ 8,003	$ 8,159
Add (deduct) tax effect of:		
Non-taxable assessments	(7,015)	(7,367)
Non-deductible (recovery) provision for financial assistance	(30)	15
Other	5	5
Total income taxes	**$ 963**	**$ 812**

At December 31, 2016, the non-depreciated property and equipment values for income tax purposes are higher than the related book values by approximately $114 (2015: $127). The resulting deferred tax asset is reflected in the Statement of Financial Position. The Corporation's future effective income tax rate is 22.5%.

NOTE 12 Retirement Benefit Plans

The Corporation maintains a defined contribution plan for its employees where the cost is charged to net income or expenses when recognized. The Corporation contributes 9% (2015: 9%) of the employees' gross salary including any paid vacation pay to each employee's RRSP and the employee contributes a required minimum of 3% (2015: 3%). Participation is compulsory for all employees. The RRSP deductions are remitted monthly to the administrator of the group plan.

The total expense recognized in the Statement of Comprehensive Income of $415 (2015: $401) represents contributions paid to these plans by the Corporation. As at December 31, 2016, no contributions (2015: Nil) were outstanding in respect of the 2016 reporting period.

The Corporation does not have any defined benefit plans nor are there any post-retirement benefits.

NOTE 13 Related Party Transactions

Included in these financial statements are transactions with AIMCo, an Alberta Crown Corporation, and departments related to the Corporation by virtue of common control or influence by the Province. Routine operating transactions and outstanding balances with any related parties, which are settled at prevailing market prices under normal trade terms and conditions, no more or less favorable than with non-government parties dealing with arm's length, are incidental and not disclosed. Investment management fees paid to AIMCo are $257 (2015: $206).

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 13 Related Party Transactions (continued)

The Board of Directors, executives and their immediate family members are also deemed to be related parties. The Board Chair for the Corporation reports directly to the President of Treasury Board and Minister of Finance. As at the reporting date, there were no business relationships or transactions, other than compensation, between the Corporation, Board members and its executives. The directors and executives' remuneration are disclosed in the table below. As at December 31, 2016 the balance of compensation payable was $26 (2015: $21).

	2016				2015
	Salary[1]	Other Cash Benefits[2]	Other Non-Cash Benefits[3]	Total	Total
Chair[4,5]	$ 33	$ -	$ -	$ 33	$ 31
Board members[4,5]	110	-	-	110	138
Executives:					
President & CEO	309	26	41	376	366
Executive Vice President, Regulation & Risk Assessment	227	15	39	281	275
Vice President, Finance & Enterprise Risk	205	15	43	263	257
Vice President, Business Services & Regulatory Practices	190	15	39	244	239
Total remuneration	**$ 1,074**	**$ 71**	**$ 162**	**$ 1,307**	**$ 1,306**

[1] Salary includes regular base pay.

[2] Other cash benefits include wellness and other allowances.

[3] Employer's share of all employee benefits and contributions or payments made on behalf of employees including Canada Pension Plan, Employment Insurance, group Registered Retirement Savings Plan, dental coverage, medical benefits, group life insurance, accidental disability and dismemberment insurance, parking and professional memberships. The total amount contributed to senior management RRSPs in the defined contribution plan was $101 (2015: $100).

[4] The Chair receives a retainer paid monthly for an annual amount of $10. The Chair and Board members are paid on a per diem basis for preparation and meeting time. The government representative is a Board member but receives no remuneration from the Corporation.

[5] The minimum and maximum amounts paid to directors were $5 (2015: $16) and $33 (2015: $31), respectively. The average amount paid to directors was $16 (2015: $21).

NOTE 14 Commitments

The Corporation is a lessee under an operating lease related to a five-year agreement for office space with an option to renew for an additional five years. This agreement expired on August 31, 2016. The Corporation exercised its option to renew the lease for an additional five years. The following represents the minimum payments over the next five years.

Not later than one year	$ 485
Later than one year and not later than 5 years	$ 1,781
Later than 5 years	$ -

NOTES TO FINANCIAL STATEMENTS

(Thousands of dollars)

NOTE 15 Capital Management

The capital of the Corporation consists of equity in the Deposit Guarantee Fund. Accumulated other comprehensive income is not included in the calculation of capital. The Corporation's capital target is for the Deposit Guarantee Fund to reach 1.50% of total credit union deposits and borrowings by 2017. As at December 31, 2016, the Fund is at 1.56% (2015: 1.41%) of total credit union deposits and borrowings. The target Fund size is achieved one year ahead of projection due to unexpected low growth in deposits and borrowings.

With the Fund size target being achieved, the Board of Directors approved that the Fund will be maintained within an operating range of 1.40% to 1.60% of total deposits and borrowings plus adjustments for any credit union deficiency from the minimum supervisory capital requirement.

The Corporation is not subject to externally imposed regulatory capital requirements. The Corporation manages equity through the following: quarterly reporting to the Board of Directors through its committees on financial results; setting budgets and reporting variances to those budgets; establishing the Corporate Investment Policy; monitoring, reporting, and reviewing the adequacy of the Deposit Guarantee Fund annually, and reviewing the assessment rates for credit unions.

NOTE 16 Comparative Figures

Certain 2015 figures have been reclassified, where necessary, to conform to 2016 presentation.

Other Information

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Supplementary Information

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Public Interest Disclosure (Whistleblower Protection) Act

(Unaudited)
For the year ended March 31, 2017

Section 32 of the *Public Interest Disclosure (Whistleblower Protection) Act* reads:

32 (1) Every chief officer must prepare a report annually on all disclosures that have been made to the designated officer of the department, public entity or office of the Legislature for which the chief officer is responsible.

(2) The report under subsection (1) must include the following information:

(a) the number of disclosures received by the designated officer, the number of disclosures acted on and the number of disclosures not acted on by the designated officer;

(b) the number of investigations commenced by the designated officer as a result of disclosures;

(c) in the case of an investigation that results in a finding of wrongdoing, a description of the wrongdoing and any recommendations made or corrective measures taken in relation to the wrongdoing or the reasons why no corrective measure was taken.

(3) The report under subsection (1) must be included in the annual report of the department, public entity or office of the Legislature if the annual report is made publicly available on request.

There were no disclosures of wrongdoing filed with my office for your department between April 1, 2016 and March 31, 2017.

Statement of Remissions, Compromises and Write-offs

(Unaudited)

For the year ended March 31, 2017

The following has been prepared pursuant to section 23 of the *Financial Administration Act*.

The statement includes all remissions, compromises and write-offs of the Ministry of Treasury Board and Finance made or approved during the fiscal year.

Write-offs	
Department of Treasury Board and Finance	
Accounts Receivable	
Corporate Income Tax	$ 24,096,763
Implemented guarantees and indemnities	
Gainers Inc. and subsidiaries	40,439
ATB Financial	
Loans and accounts receivable	198,157,000
Total write-offs	$ 222,294,202
Compromises	
Corporate Income Tax	19,278
Total write-offs and compromises	$ 222,313,480

Statement of Borrowings Made Under Section 56 of the *Financial Administration Act*

(Unaudited)

For the year ended March 31, 2017

The following has been reported pursuant to section 56(2) of the *Financial Administration Act*.

	Issue Principal	Proceeds
Payable in Canadian dollars:		
Promissory Notes	$ 26,323,441,926	$ 26,705,534,417
Debentures	16,784,030,945	16,740,910,661
	$ 43,107,472,871	$ 43,446,445,078

Statement of the Amount of Debt of the Crown for Which Securities Were Pledged

(Unaudited)

For the year ended March 31, 2017

The following statement has been prepared pursuant to section 66(2) of the *Financial Administration Act*.

The amount of the debt of the crown outstanding at the end of the 2016-17 fiscal year for which securities were pledges under Part 6 of the *Financial Administration Act* was $ nil.

Statements of Guarantees and Indeminities

(Unaudited)

For the year ended March 31, 2017

The following statement has been prepared pursuant to section 75 of the *Financial Administration Act*.

The statement summarizes the amounts of all guarantees and indemnities given by the Ministry of Treasury Board and Finance and on behalf of the Crown and Provincial Corporations for the year ended March 31, 2017, the amounts paid as a result of liability under guarantees and indemnities, and the amounts recovered in debts owing as a result of payments under guarantees and indemnities.

Program/Borrower	Payments	Recoveries
CROWN GUARANTEES		
Gainers Inc. and subsidiaries	$ 40,439	$ -

LONG TERM DISABILITY INCOME CONTINUANCE PLAN - BARGAINING UNIT

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Long Term Disability Income Continuance Plan – Bargaining Unit, which comprise the statement of financial position as at March 31, 2017, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Long Term Disability Income Continuance Plan – Bargaining Unit as at March 31, 2017, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
June 5, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 276,323	$ 256,125
Contributions receivable		
Employer	288	139
Employee	287	139
Accounts receivable	201	135
Total Assets	277,099	256,538
Liabilities		
Accounts payable and accrued liabilities	1,184	1,354
Total Liabilities	1,184	1,354
Net assets available for benefits	275,915	255,184
Benefit obligation and surplus		
Benefit obligation (Note 5)	174,400	172,178
Surplus (Note 6)	101,515	83,006
Benefit obligation and surplus	**$ 275,915**	**$ 255,184**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2017

	($ thousands)	
	2017	**2016**
Increase in assets		
Contributions:		
Employers	$ 17,311	$ 16,592
Employees	17,309	16,623
Investment income (Note 7)	26,234	5,966
	60,854	39,181
Decrease in assets		
Benefit payments	34,423	34,504
Adjudication	2,786	2,623
Severance	627	711
Rehabilitation	535	704
Investment expenses (Note 8)	1,210	1,207
Administrative expenses (Note 9)	542	618
	40,123	40,367
Increase (decrease) in net assets	20,731	(1,186)
Net assets available for benefits at beginning of year	255,184	256,370
Net assets available for benefits at end of year	**$ 275,915**	**$ 255,184**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Benefit Obligation

Year ended March 31, 2017

	($ thousands)	
	2017	**2016**
Increase in benefit obligation		
New claims	$ 32,556	$ 29,041
Interest accrued on benefits	6,033	6,183
Change in discount rate assumption	-	846
Other net experience loss	-	1,784
	38,589	37,854
Decrease in benefit obligation		
Benefit payments	34,423	34,504
Terminations other than expected	525	654
Other net experience gain	1,419	-
	36,367	35,158
Net increase in benefit obligation	2,222	2,696
Benefit obligation at beginning of year	172,178	169,482
Benefit obligation at end of year	$ 174,400	$ 172,178

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2017

(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for bargaining unit employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Long Term Disability Income Continuance Plan Regulation, section 98 of the *Financial Administration Act* and Treasury Board Directive 08/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta employees included in an Alberta Union of Provincial Employee's (AUPE) bargaining unit. Management and employees opted out and excluded from an AUPE bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded equally by employer and employee contributions at rates which are expected to provide for all benefits payable under the Plan. The rates in effect at March 31, 2017 are 1.35 per cent (2016: 1.35 per cent) of insurable salary for employers and 1.35 per cent (2016: 1.35 per cent) for employees. The rates are to be reviewed at least once every three years by the Deputy Minister of the Public Service Commission based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or wilfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by the Public Service Commission of $275 (2016: $227).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

d) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING... (CONTINUED)

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) VALUATION OF ACCOUNTS RECEIVABLE, ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts receivable, accounts payable and accrued liabilities are estimated to approximate their book values.

h) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland pools may differ significantly from the values that would have been used had readily available market prices existed for these investments.

While best estimates have been used in the valuation of the Plan's benefit obligation and in the valuation of the Plan's private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [(a)]			2017	2016
	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 5,643	$ -	$ 5,643	$ 4,101
Bonds, mortgages and private debt	-	119,435	6,721	126,156	120,482
	-	125,078	6,721	131,799	124,583
Equities					
Canadian	22,973	1,827	5,482	30,282	27,802
Foreign	48,536	6,560	16,928	72,024	61,911
Private	-	-	6,397	6,397	7,153
	71,509	8,387	28,807	108,703	96,866
Inflation sensitive and alternatives					
Real estate	-	-	21,445	21,445	21,074
Infrastructure	-	-	8,544	8,544	8,139
Timberland	-	-	3,415	3,415	3,191
	-	-	33,404	33,404	32,404
Strategic, tactical and currency investments *	-	245	2,172	2,417	2,272
Total investments	$ 71,509	$ 133,710	$ 71,104	$ 276,323	$ 256,125

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $71,509 (2016: $49,946).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $133,710 (2016: $132,690). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $71,104 (2016: $73,489).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2017	($ thousands) 2016
Balance, beginning of year	$ 73,489	$ 66,898
Investment income *	9,042	4,161
Purchases of Level 3 pooled fund units	17,669	11,842
Sale of Level 3 pooled fund units	(29,096)	(9,412)
Balance, end of year	**$ 71,104**	**$ 73,489**

* Investment income includes unrealized (losses) gains of $(1,951) (2016: $3,009)

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provide overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the President of Treasury Board, Minister of Finance. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board, Minister of Finance has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix			
		March 31, 2017		March 31, 2016	
		($ thousands)	%	*($ thousands)*	%
Money market and fixed income	35 - 55%	$ 131,799	47.7	$ 124,583	48.6
Equities	20 - 58%	108,703	39.3	96,866	37.8
Inflation sensitive and alternatives	7 - 20%	33,404	12.1	32,404	12.7
Strategic, tactical and currency	(a)	2,417	0.9	2,272	0.9
		$ 276,323	100.0	$ 256,125	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to an economic exposure limit of 5% of the Plan's assets.

a) Credit risk

i. Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	94.8%	95.3%
Speculative Grade (BB+ or lower)	0.3%	0.0%
Unrated	4.9%	4.7%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

ii. Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii. Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Plan's share of securities loaned under this program is $22,371 (2016: $9,266) and collateral held totals $23,523 (2016: $9,702). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 25% (2016: 24%) of the Plan's investments, or $68,697 (2016: $62,093), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 13% (2016: 13%) and the Euro, 3% (2016: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.5% (2016: 2.4%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2017:

($ thousands)

	2017		2016	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 36,058	$ (3,606)	$ 32,484	$ (3,248)
Euro	8,047	(805)	7,050	(705)
Japanese yen	5,104	(510)	4,726	(473)
British pound	3,754	(375)	3,833	(383)
Other foreign currency	15,734	(1,573)	14,000	(1,400)
Total foreign currency investments	$ 68,697	$ (6,870)	$ 62,093	$ (6,209)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's net assets.

c) Interest rate risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.1% (2016: 3.4%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

d) Price risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 4.5% (2016: 4.6%) of total investments. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and payables related to the purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2017	2016
Contracts in favourable position (current credit exposure)	41	$ 1,722	$ 3,185
Contracts in unfavourable position	13	(1,225)	(1,309)
Net fair value of derivative contracts	54	$ 497	$ 1,876

i. Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $1,722 (2016: $3,185) were to default at once.

ii. Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii. Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2017	2016
Structured equity replication derivatives	$ 378	$ 1,233
Foreign currency derivatives	(186)	1,039
Interest rate derivatives	70	(517)
Credit risk derivatives	235	121
Net fair value of derivative contracts	$ 497	$ 1,876

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii. Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii. Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv. Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v. Deposits: At March 31, 2017 deposits in futures contracts margin accounts totaled $256 (2016: $877) and deposits as collateral for derivative contracts totaled $50 (2016: $18).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2016 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2017.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Deputy Minister of the Public Service Commission.

The major assumptions used were:

	%	
	2017 Extrapolation	**2016 Valuation**
Interest discount rate (net of investment and administrative expenses)	3.9	3.9
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	30	30

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 3.9 per cent (2016: 3.9 per cent). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

The Incurred But Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 30 per cent (2016: 30 per cent) of experience rated premiums was appropriate for estimating the reserve amount.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2017. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2018.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2017, based on the extrapolation performed from the December 31, 2016 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5 per cent decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $4.4 million (2016: $4.4 million).

NOTE 6 SURPLUS

($ thousands)

	2017	2016
Surplus at beginning of year	$ 83,006	$ 86,888
Increase (decrease) in net assets available for benefits	20,731	(1,186)
Net (increase) in benefit obligation	(2,222)	(2,696)
Surplus at end of year	$ 101,515	$ 83,006

NOTE 7 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)

	Income	Change in Fair Value	2017 Total	2016 Total
Money market and fixed income	$ 7,967	$ (3,530)	$ 4,437	$ 2,671
Equities				
Canadian	1,769	2,938	4,707	(1,042)
Foreign	9,298	4,887	14,185	572
Private	901	(552)	349	1,107
	11,968	7,273	19,241	637
Inflation sensitive and alternatives				
Real estate	1,029	257	1,286	1,174
Infrastructure	991	(150)	841	1,039
Timberland	182	231	413	38
	2,202	338	2,540	2,251
Strategic, tactical and currency investments	(175)	191	16	407
	$ 21,962	$ 4,272	$ 26,234	$ 5,966

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $4,350 and $(32) respectively (2016: $213 and $(7,966) respectively). Realized and unrealized gains and losses on currency hedges total $(94) and $48 respectively (2016: $(467) and $283 respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES

	($ thousands)	
	2017	2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 966	$ 1,023
Performance based fees [(a)]	232	172
	1,198	1,195
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 1,210	$ 1,207
Increase (decrease) in expenses	0.2%	(9.7%)
Increase in average investments under management	3.8%	5.7%
Increase in value of investments attributed to AIMCo	1.8%	2.1%
Investment expense as a percent of:		
Dollar earned	4.6%	20.2%
Dollar invested	0.5%	0.5%

(a)

Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase (decrease) in investment costs and performance based fees is 0.3% (2016: (9.8%))

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2017	2016
General administration costs		
Salaries and related expenses	$ 275	$ 227
Fund Administration - Union liaison and others	72	72
Actuarial fees	72	89
Supplies and services	123	230
	$ 542	$ 618

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2017	2016	2015	2014	2013
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	8.1	(0.2)	12.9	15.1	9.8
Value added return by investment manager	1.8	2.1	(1.0)	1.0	1.7
Total return (loss) on investments [a]	**9.9**	**1.9**	**11.9**	**16.1**	**11.6**
Other sources [b]	(1.8)	(2.4)	(0.3)	2.2	4.7
Per cent change in net assets [c]	**8.1**	**(0.6)**	**11.6**	**18.3**	**16.2**
Per cent change in benefit obligation [c]	**1.3**	**1.6**	**9.7**	**8.6**	**(9.8)**
Per cent of benefit obligation supported by net assets	**158**	**148**	**151**	**149**	**136**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.1% (PBR: 9.0%), ten years is 5.9% (PBR: 5.7%) and since inception is 6.5% (PBR: 6.0%).

(b) Other sources include employee and employer contributions and administration expenses.

(c) The percentage change in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $101,515 (2016: surplus of $83,006) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Plan has been named in one (2016: one) claim of which the outcome is not determinable, and as such, no amounts are accrued in these financial statements in respect of this claim. The claim has a specified amount of $43 (2016: $43). The resolution of the claim may result in a liability, if any, that may be significantly lower than the claimed amount.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2017 presentation.

NOTE 14 APPROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of the Public Service Commission and the Senior Financial Officer on June 5, 2017.

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LONG TERM DISABILITY INCOME CONTINUANCE PLAN - MANAGEMENT, OPTED OUT AND EXCLUDED

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance

AUDITOR GENERAL *Alberta*

Report on the Financial Statements

I have audited the accompanying financial statements of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded, which comprise the statement of financial position as at March 31, 2017, and the statements of changes in net assets available for benefits and changes in benefit obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Long Term Disability Income Continuance Plan – Management, Opted Out and Excluded as at March 31, 2017, and the changes in its net assets available for benefits and changes in its benefit obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General
June 5, 2017
Edmonton, Alberta

Statement of Financial Position

As at March 31, 2017

	($ thousands) 2017	2016
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 72,562	$ 71,122
Employer contributions receivable	86	63
Total Assets	72,648	71,185
Liabilities		
Accounts payable and accrued liabilities	259	275
Total Liabilities	259	275
Net assets available for benefits	72,389	70,910
Benefit obligation and surplus		
Benefit obligation (Note 5)	40,950	41,664
Surplus (Note 6)	31,439	29,246
Benefit obligation and surplus	**$ 72,389**	**$ 70,910**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Increase in assets		
Employer contributions	$ 4,884	$ 5,562
Investment income (Note 7)	6,835	1,430
	11,719	6,992
Decrease in assets		
Benefit payments	9,142	10,135
Adjudication	365	281
Rehabilitation	81	82
Severance	119	225
Investment expenses (Note 8)	341	341
Administrative expenses (Note 9)	192	196
	10,240	11,260
Increase (decrease) in net assets	1,479	(4,268)
Net assets available for benefits at beginning of year	70,910	75,178
Net assets available for benefits at end of year	**$ 72,389**	**$ 70,910**

The accompanying notes are an integral part of these financial statements.

Statement of Changes in Benefit Obligation

Year ended March 31, 2017

	($ thousands) 2017	($ thousands) 2016
Increase in benefit obligation		
New claims	$ 7,183	$ 7,096
Interest accrued on benefits	1,588	1,697
Change in discount rate assumption	-	163
Other net experience loss	199	697
	8,970	9,653
Decrease in benefit obligation		
Benefit payments	9,142	10,135
Terminations other than expected	542	689
	9,684	10,824
Decrease in benefit obligation	(714)	(1,171)
Benefit obligation at beginning of year	41,664	42,835
Benefit obligation at end of year	$ 40,950	$ 41,664

The accompanying notes are an integral part of these financial statements.

NOTES TO THE FINANCIAL STATEMENTS

Year ended March 31, 2017
(all dollar values in thousands, unless otherwise stated)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Long Term Disability Income Continuance Plan (the Plan) for management, opted out and excluded employees is a summary only. For a complete description of the Plan, reference should be made to section 21 of the *Public Service Act*, the Provincial Court Judges and Masters in Chambers Compensation Regulation 176/98 and the Justice of Peace Regulation 6/99, the Long Term Disability Income Continuance Plan Regulation, the Long Term Disability Benefits Regulation (Legislative Assembly Act), section 98 of *the Financial Administration Act* and Treasury Board Directive 09/98, as amended.

a) GENERAL

The Plan provides disability benefits and ensures income continuance of eligible Government of Alberta management, opted out and excluded employees, Members of the Legislative Assembly, Auditor General, Child and Youth Advocate, Chief Electoral Officer, Ethics Commissioner, Freedom of Information and Privacy Commissioner, Ombudsman, Full-Time Justice of the Peace and Provincial Judges. Employees included in an Alberta Union of Provincial Employee's bargaining unit are covered under a separate plan.

b) FUNDING POLICY

Long term disability benefits are funded by employer (Government of Alberta including Legislative Assembly and other Legislative Offices) contributions at a rate which is expected to provide for all benefits payable under the Plan. The rate in effect at March 31, 2017 is 0.60 per cent (2016: 0.60 per cent) of insurable salary of eligible employees with the exception of Provincial Judges with the rate of 1.10 per cent (2016: 1.10 per cent). The rates are to be reviewed at least once every three years by the Deputy Minister of the Public Service Commission based on recommendations of the Plan's actuary and Advisory Committee.

c) LONG TERM DISABILITY BENEFITS

Benefits are payable when eligible plan members become disabled for 80 consecutive normal workdays as the result of bodily injury or illness, as determined by the Plan's adjudicator. Plan members are eligible for coverage after completion of three consecutive months of service without absence in a permanent position, or a full year in a temporary position. The Plan provides for benefits equal to 70 per cent of members' pre-disability salary. Reduced benefits are payable to eligible members who receive compensation from the Workers' Compensation Board, an automobile insurance plan, benefits under the Canada Pension Plan or any other group disability plan, vacation leave pay or employment income other than a rehabilitation program.

No benefit is payable if the disability is the result of injuries suffered from participation in a criminal act or an act of war, or injury or illness which are self-inflicted intentionally. Disabled members who are not under the continuous care of a physician or who are confined in prisons are not eligible for benefits.

Benefits terminate upon the earliest of the date the member resigns or is gainfully employed or is no longer disabled, three months after the adjudicator declares the member is suitable for gainful employment, or the date the member attains age 65 and is eligible for an unreduced public service pension. For Judges and Full-Time Justices of the Peace benefits terminate at age 70. Benefits also terminate when a member's earnings under a rehabilitation program or earnings received from employment or self employment are the same as the member's pre-disability salary or after 24 months where the member is in a temporary position or when an employee refuses or wilfully fails to participate and cooperate in a rehabilitation plan.

d) DECREASE IN ASSETS

Expenses of the Plan include benefits paid out, adjudication fees, rehabilitation expenses, administrative expenses and severance payments for resignation of employment subsequent to disability leave. Adjudication fees include services performed by an independent agent in determining the eligibility of claims, the amounts of eligible benefits and the time period applicable for disability. Administrative expenses include the cost of salaries and benefits incurred on behalf of the Plan by the Public Service Commission of $111 (2016: $104).

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or benefit obligation.

These financial statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in the pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

d) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 7 and includes the following items recorded in the Plan's accounts:

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING... (CONTINUED)

i. Income distributions from the pools.

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 8). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUATION OF BENEFIT OBLIGATION

The value of the benefit obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method based on estimates of the Plan's Disabled Life Reserve and the Incurred But Unreported Reserve and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) VALUATION OF ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

The fair values of accounts payable and accrued liabilities are estimated to approximate their book values.

h) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's benefit obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the valuation of the Plan's benefit obligation, and
ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland pools may differ significantly from the values that would have been used had readily available market prices existed for these investments.

While best estimates have been used in the valuation of the Plan's benefit obligation and in the valuation of the Plan's private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that change in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in respect of the benefit obligation are disclosed as net experience gains or losses that change the value of the benefit obligation (see Note 5b).

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the President of Treasury Board, Minister of Finance. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [(a)]			2017	2016
	Level 1	Level 2	Level 3	Fair Value	Fair Value
Money market and fixed income					
Deposits and short-term securities	$ -	$ 1,644	$ -	$ 1,644	$ 1,101
Bonds, mortgages and private debt	-	30,249	2,133	32,382	33,218
	-	31,893	2,133	34,026	34,319
Equities					
Canadian	6,011	480	1,434	7,925	7,697
Foreign	12,113	1,645	4,292	18,050	16,538
Private	-	-	1,930	1,930	2,309
	18,124	2,125	7,656	27,905	26,544
Inflation sensitive and alternatives					
Real estate	-	-	6,138	6,138	6,037
Infrastructure	-	-	2,794	2,794	2,621
Timberland	-	-	966	966	900
	-	-	9,898	9,898	9,558
Strategic, tactical and currency investments *	-	74	659	733	701
Total investments	$ 18,124	$ 34,092	$ 20,346	$ 72,562	$ 71,122

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy**: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $18,124 (2016: $13,637).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $34,092 (2016: $35,942). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $20,346 (2016: $21,543).

NOTE 3 INVESTMENTS (CONTINUED)

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2017	($ thousands) 2016
Balance, beginning of year	$ 21,543	$ 20,333
Investment income *	2,342	872
Purchases of Level 3 pooled fund units	4,720	2,977
Sale of Level 3 pooled fund units	(8,259)	(2,639)
Balance, end of year	**$ 20,346**	**$ 21,543**

* Investment income includes unrealized (losses) and gains of $(771) (2016: $405)

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans are valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provide overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the President of Treasury Board, Minister of Finance. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the President of Treasury Board, Minister of Finance has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix			
		March 31, 2017		March 31, 2016	
		($ thousands)	%	*($ thousands)*	%
Money market and fixed income	35 - 55%	$ 34,026	46.9	$ 34,319	48.3
Equities	20 - 58%	27,905	38.5	26,544	37.3
Inflation sensitive and alternatives	7 - 20%	9,898	13.6	9,558	13.4
Strategic, tactical and currency	(a)	733	1.0	701	1.0
		$ 72,562	100.0	$ 71,122	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays limited to an economic exposure limit of 5% of the Plan's assets.

a) Credit risk

i. Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	93.8%	94.1%
Speculative Grade (BB+ or lower)	0.3%	0.0%
Unrated	5.9%	5.9%
	100.0%	100.0%

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

ii. Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii. Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Plan's share of securities loaned under this program is $5,667 (2016: $2,520) and collateral held totals $5,959 (2016: $2,639). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign currency risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair value of investments denominated in foreign currencies is translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 24% (2016: 24%) of the Plan's investments, or $17,350 (2016: $16,696), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 13% (2016: 12%) and the Euro, 3% (2016: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.4% (2016: 2.4%) of total investments.

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at March 31, 2017:

($ thousands)

	2017		2016	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 9,134	$ (913)	$ 8,751	$ (875)
Euro	2,025	(203)	1,867	(187)
Japanese yen	1,285	(129)	1,256	(126)
British pound	944	(94)	1,020	(102)
Other foreign currency	3,962	(396)	3,802	(380)
Total foreign currency investments	$ 17,350	$ (1,735)	$ 16,696	$ (1,670)

(a) Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Plan's net assets.

c) Interest rate risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.0% (2016: 3.3%) of total investments.

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

d) Price risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in the pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 4.5% (2016: 4.6%) of total investments. Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and payables related to the purchase of units.

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	2017	2016
Contracts in favourable position (current credit exposure)	41	$ 447	$ 902
Contracts in unfavourable position	13	(325)	(369)
Net fair value of derivative contracts	54	$ 122	$ 533

i. Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favorable position totaling $447 (2016: $902) were to default at once.

ii. Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

iii. Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share *($ thousands)*	
Types of derivatives used in pools	2017	2016
Structured equity replication derivatives	$ 102	$ 325
Foreign currency derivatives	(57)	315
Interest rate derivatives	18	(140)
Credit risk derivatives	59	33
Net fair value of derivative contracts	$ 122	$ 533

NOTE 4 INVESTMENT RISK MANAGEMENT (CONTINUED)

i. Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

ii. Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

iii. Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

iv. Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

v. Deposits: At March 31, 2017 deposits in futures contracts margin accounts totaled $67 (2016: $237) and deposits as collateral for derivative contracts totaled $15 (2016: $6).

NOTE 5 BENEFIT OBLIGATION

a) ACTUARIAL VALUATION

An actuarial valuation of the Plan was carried out as at December 31, 2016 by the Plan's actuary, Mercer (Canada) Limited and was then extrapolated to March 31, 2017.

The assumptions used in the valuation were developed as the best estimate of expected short and long term market conditions and other future events. These estimates were, after consultation with the Plan's actuary, adopted by the Deputy Minister of the Public Service Commission.

The major assumptions used were:

	%	
	2017 Extrapolation	**2016 Valuation**
Interest discount rate (net of investment and administrative expenses)	4.3	4.3
Continuance rates		
Based on Study on Canadian Group Long Term Disability Termination Experience (1988-1997)	Modified*	Modified*
Incurred but unreported reserve factor		
As percentage of experience rated premiums	35	35

* The rates have been modified by duration to reflect the Plan's adjudication practices and claims termination experience.

The Disabled Life Reserve is an estimate of the value of future payments to be made over the life of incurred claims, discounted to a current value using a rate of 4.3 per cent (2016: 4.3 per cent). An adjustment has been made to the Disabled Life Reserve to reflect Plan members who may be approved for Canada Pension Plan benefits in the future.

The Incurred But Unreported Reserve is an estimate of the value of the financial impact of claims that are either unreported or not approved at the fiscal year end, but which will ultimately be accepted for benefits. Based on a review of historical reserves, management and the Plan's actuary determined a reserve factor of 35 per cent (2016: 35 per cent) of experience rated premiums was appropriate for estimating the reserve amount.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2017. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2018.

NOTE 5 BENEFIT OBLIGATION (CONTINUED)

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

As at March 31, 2017, based on the extrapolation performed from the December 31, 2016 valuation, holding the continuance rates and incurred but unreported reserve factor constant, a 0.5 per cent decrease in the assumed interest discount rate would reduce the actuarial surplus of the Plan by $0.8 million (2016: $0.8 million).

NOTE 6 SURPLUS

($ thousands)

	2017	2016
Surplus at beginning of year	$ 29,246	$ 32,343
Increase (decrease) in net assets available for benefits	1,479	(4,268)
Net decrease in benefit obligation	714	1,171
Surplus at end of year	$ 31,439	$ 29,246

NOTE 7 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)

	Income	Change in Fair Value	2017 Total	2016 Total
Money market and fixed income	$ 2,110	$ (936)	$ 1,174	$ 677
Equities				
Canadian	478	790	1,268	(312)
Foreign	2,363	1,258	3,621	168
Private	258	(247)	11	2
	3,099	1,801	4,900	(142)
Inflation sensitive and alternatives				
Real estate	295	73	368	340
Infrastructure	322	(55)	267	364
Timberland	51	65	116	11
	668	83	751	715
Strategic, tactical and currency investments	(55)	65	10	180
	$ 5,822	$ 1,013	$ 6,835	$ 1,430

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $1,279 and $(258) respectively (2016: $300 and $(2,785) respectively). Realized and unrealized gains and losses on currency hedges total $(26) and $18 respectively (2016: $(140) and $137 respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 8 INVESTMENT EXPENSES

	($ thousands) 2017	($ thousands) 2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 264	$ 291
Performance based fees [(a)]	65	38
	329	329
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	12	12
Total investment expenses	$ 341	$ 341
Increase (decrease) in expenses	0.0%	(7.8%)
(Decrease) increase in average investments under management	(1.9%)	2.2%
Increase in value of investments attributed to AIMCo	1.6%	1.7%
Investment expense as a percent of:		
Dollar earned	5.0%	23.8%
Dollar invested	0.5%	0.5%

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase (decrease) in investment costs and performance based fees is 0.0% (2016: (8.1%))

NOTE 9 ADMINISTRATIVE EXPENSES

	($ thousands) 2017	($ thousands) 2016
General administration costs		
Salaries and related expenses	$ 111	$ 104
Actuarial fees	50	23
Supplies and services	31	69
	$ 192	$ 196

NOTE 10 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND BENEFIT OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the benefit obligation and the per cent of benefit obligation supported by net assets.

	2017	2016	2015	2014	2013
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	8.0	(0.1)	12.9	12.6	9.8
Value added return by investment manager	1.6	1.7	(1.4)	0.7	1.8
Total return on investments [(a)]	**9.6**	**1.6**	**11.5**	**13.3**	**11.6**
Other sources [(b)]	(7.5)	(7.3)	(1.3)	(0.7)	1.2
Per cent change in net assets [(c)]	**2.1**	**(5.7)**	**10.2**	**12.6**	**12.8**
Per cent change in benefit obligation [(c)]	**(1.7)**	**(2.7)**	**(3.1)**	**4.6**	**(3.2)**
Per cent of benefit obligation supported by net assets	**177**	**170**	**176**	**164**	**143**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 9.4% (PBR: 8.6%), ten years is 5.5% (PBR: 5.4%) and since inception is 6.2% (PBR: 5.9%).

(b) Other sources include employer contributions and administration expenses.

(c) The percentage change in net assets and the benefit obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in benefit obligation.

NOTE 11 CAPITAL

The Plan defines its capital as the funded status. The Plan's definition of capital is unchanged from prior periods. The funded status is the same as accounting surplus of $31,439 (2016: surplus of $29,246) reported in Note 6.

NOTE 12 CONTINGENT LIABILITIES

The Plan is involved in legal matters where damages are being sought. These matters may give rise to contingent liabilities.

The Plan has been named in one (2016: one) claim of which the outcome is not determinable, and as such, no amounts are accrued in these financial statements in respect of this claim. The claim has a specified amount of $1,500 (2016: $1,500). The claim is covered by Alberta Risk Management Fund. The resolution of the claim may result in a liability, if any, that may be significantly lower than the claimed amount.

NOTE 13 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2017 presentation.

NOTE 14 APROVAL OF FINANCIAL STATEMENTS

These financial statements were prepared by management and approved by the Deputy Minister of the Public Service Commission and the Senior Financial Officer on June 5, 2017.

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LOCAL AUTHORITIES PENSION PLAN

Financial Statements

Year Ended December 31, 2016

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board, Minister of Finance and
the Local Authorities Pension Plan Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Local Authorities Pension Plan, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Local Authorities Pension Plan as at December 31, 2016, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2017

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2016

	($ thousands) 2016	2015
Net assets available for benefits		
Assets		
Investments (Note 3)	$37,699,945	$34,303,557
Contributions receivable		
Employers	20,017	44,795
Employees	18,927	41,331
Receivable for investments sales	36,536	26,049
Accounts receivable	36,500	36,907
Total Assets	37,811,925	34,452,639
Liabilities		
Accounts payable	49,883	7,007
Liability for investment purchases and expenses	39,099	26,048
Total Liabilities	88,982	33,055
Net assets available for benefits	$ 37,722,943	$ 34,419,584
Pension obligation and deficit		
Pension obligation (Note 5)	$38,360,300	$35,343,000
Deficit (Note 6)	(637,357)	(923,416)
Pension obligation and deficit	$37,722,943	$34,419,584

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016

	($ thousands) 2016	2015
Increase in assets		
Contributions (Note 7)	$ 2,592,882	$ 2,476,749
Investment income (Note 8)	2,235,919	2,662,194
Transfers from other plans	9,642	23,007
	4,838,443	5,161,950
Decrease in assets		
Benefit payments (Note 10)	1,311,067	1,290,744
Transfers to other plans	11,047	17,355
Investment expenses (Note 11)	174,157	187,695
Administrative expenses (Note 12)	38,813	36,936
	1,535,084	1,532,730
Increase in net assets	3,303,359	3,629,220
Net assets available for benefits at beginning of year	34,419,584	30,790,364
Net assets available for benefits at end of year	$ 37,722,943	$ 34,419,584

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2016

	($ thousands) 2016	2015
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 2,027,700	$ 2,027,700
Benefits earned	1,733,200	1,715,600
Net increase due to actuarial assumption changes (Note 5a)	701,300	-
	4,462,200	3,743,300
Decrease in pension obligation		
Net decrease due to actuarial assumption changes (Note 5a)	-	53,000
Net experience gains (Note 5b)	95,800	270,000
Benefits, transfers and interest	1,349,100	1,322,300
	1,444,900	1,645,300
Net increase in pension obligation	3,017,300	2,098,000
Pension obligation at beginning of year	35,343,000	33,245,000
Pension obligation at end of year (Note 5)	$ 38,360,300	$ 35,343,000

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2016

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Local Authorities Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Local Authorities Pension Plan* Alberta Regulation 366/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of local authorities and approved public bodies. These include cities, towns, villages, municipal districts, hospitals, school divisions, school districts, colleges, technical institutes and certain commissions, foundations, agencies, libraries, corporations, associations and societies. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0216556. The Alberta President of Treasury Board, Minister of Finance is the legal trustee of the Plan and Alberta Treasury Board and Finance is management of the Plan. The Local Authorities Pension Plan Board of Trustees (the Board) has certain statutory functions with respect to the Plan, including but not limited to setting general policy guidelines on investment and management of the Plan's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and making recommendations for Plan rule amendments. The Alberta Local Authorities Pension Plan Corp. (ALAPP Corp.) supports the Board's functions and provides high level strategic guidance to the Plan.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employers and employees at contribution rates which together with investment earnings are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2016 were 10.39% (2015: 10.39%) of pensionable earnings up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 14.84% (2015: 14.84%) of the excess for employees, and 11.39% (2015: 11.39%) of pensionable earnings up to the YMPE and 15.84% (2015: 15.84%) of the excess for employers. Pensionable earnings is subject to a limit (the salary cap) to ensure the pension accrual is not greater than the maximum pension benefit limit allowed under the *Income Tax Act*. In 2016, the pensionable earnings limit was $160,970 (2015: $157,025).

The contribution rates were reviewed by the Board in 2016 and, as a result, contribution rates did not change effective January 1, 2017. Rates are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the excess, up to the average salary cap for the same period. The maximum pensionable service allowable under the Plan is 35 years. Unreduced pensions are payable to members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of pensionable service equals at least 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of membership or pensionable service.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least two years of membership or pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least two years of membership or pensionable service.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least two years of membership or pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner, or where membership or pensionable service is less than two years, a lump sum payment will be made.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of membership or pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension. Members who terminate with fewer than two years of membership or pensionable service receive a refund of their contributions and interest. These payments are included as benefit payments on the statement of changes in net assets available for benefits.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan. The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year. The increase is prorated for pensions that became payable within the year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

  i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools, and

  ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at the beginning of the year and results from the most recent valuation are extrapolated to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) The estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [a]			2016	2015
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income					
Deposits and short-term securities	$ -	$ 470,535	$ -	$ 470,535	$ 287,315
Bonds, mortgages and private debt	-	9,251,700	1,329,189	10,580,889	9,636,398
	-	9,722,235	1,329,189	11,051,424	9,923,713
Inflation sensitive and alternatives					
Real estate	-	-	4,710,660	4,710,660	4,436,088
Real return bonds	-	1,743,228	-	1,743,228	1,569,427
Infrastructure	-	-	2,320,542	2,320,542	1,823,319
Timberland	-	-	425,824	425,824	387,967
	-	1,743,228	7,457,026	9,200,254	8,216,801
Short horizon					
Canadian equities	3,814,107	345,602	33,362	4,193,071	3,639,618
Global developed equities	5,104,322	1,243,923	2,946,658	9,294,903	8,587,670
Emerging market equities	1,254,056	43,054	-	1,297,110	1,196,651
Small cap equity	1,270,489	-	-	1,270,489	1,126,390
	11,442,974	1,632,579	2,980,020	16,055,573	14,550,329
Long horizon					
Private equities	-	-	1,088,988	1,088,988	1,322,212
Strategic, tactical and currency investments *	-	31,978	271,728	303,706	290,502
Total investments	$ 11,442,974	$ 13,130,020	$ 13,126,951	$37,699,945	$34,303,557

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totaling $11,442,974 (2015: $10,333,944).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totaling $13,130,020 (2015: $11,790,268). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totaling $13,126,951 (2015: $12,179,345).

NOTE 3 INVESTMENTS CONTINUED

Reconciliation of Level 3 Fair Value Measurement

	($ thousands) 2016	2015
Balance, beginning of year	$12,179,345	$ 10,134,921
Investment income *	646,166	1,440,772
Purchases of Level 3 pooled fund units	2,314,456	1,635,058
Sale of Level 3 pooled fund units	(2,013,016)	(1,031,406)
Balance, end of year	$13,126,951	$ 12,179,345

* Investment income includes unrealized (loss) gains of $(387,314) (2015: $923,303).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Inflation sensitive and alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Short horizon:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Long horizon***: The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016 ($ thousands)	2016 %	Actual Asset Mix 2015 ($ thousands)	2015 %
Fixed income	20 - 40%	$11,051,424	29.3	$ 9,923,713	29.0
Inflation sensitive and alternatives	20 - 50%	9,200,254	24.4	8,216,801	24.0
Short horizon	25 - 50%	16,055,573	42.6	14,550,329	42.4
Long horizon	3 - 9%	1,088,988	2.9	1,322,212	3.8
Strategic, tactical and currency investments	(a)	303,706	0.8	290,502	0.8
		$37,699,945	100.0	$34,303,557	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at their discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	90.8%	91.0%
Speculative Grade (BB+ or lower)	0.0%	0.0%
Unrated	9.2%	9.0%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2016, the Plan's share of securities loaned under this program is $4,373,975 (2015: $1,514,646) and collateral held totals $4,633,352 (2015: $1,605,618). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 29.3% (2015: 30.6%) of the Plan's investments, or $11,045,087 (2015: $10,506,353), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 15.7% (2015: 15.4%) and the Euro, 2.9% (2015: 3.0%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 2.9% of total investments (2015: 3.1%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2016:

($ thousands)

	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 5,894,661	$ (589,466)	$ 5,269,554	$ (526,955)
Euro	1,103,537	(110,354)	1,027,267	(102,727)
Japanese yen	858,556	(85,856)	837,532	(83,753)
British pound	619,024	(61,902)	689,519	(68,952)
Other foreign currencies (below 1%)	2,569,309	(256,931)	2,682,481	(268,248)
Total foreign currency investments	$ 11,045,087	$ (1,104,509)	$ 10,506,353	$ (1,050,635)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.8% of total investments (2015: 3.8%).

d) Price Risk

Price risk relates to the possibility that pool units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 5.3% of total investments (2015: 5.1%).

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2016	2015
Contracts in favourable position (current credit exposure)	45	$ 194,786	$ 144,638
Contracts in unfavourable position	11	(81,153)	(419,663)
Net fair value of derivative contracts	56	$ 113,633	$ (275,025)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $194,786 (2015: $144,638) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share	
	($ thousands)	
Types of derivatives used in pools	**2016**	**2015**
Structured equity replication derivatives	$ 91,979	$ (6,391)
Foreign currency derivatives	18,664	(229,752)
Interest rate derivatives	(10,652)	(49,468)
Credit risk derivatives	13,642	10,586
Net fair value of derivative contracts	$ 113,633	$ (275,025)

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2016 deposits in futures contracts margin accounts totalled $81,967 (2015: $80,147) and deposits as collateral for derivative contracts totalled $9,816 (2015: $24,160).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2015 by Mercer (Canada) Limited and results were then extrapolated to December 31, 2016.

The actuarial assumptions used in determining the value of the pension obligation of $38,360,300 (2015: $35,343,000) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2016	2015
	%	
Discount rate	5.50	5.60
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector) with a LAPP specific multiplier	

* In addition to age specific merit and promotion increase assumptions.

The Board's policy is to have an actuarial valuation of the Plan carried out every year. As a result, an actuarial valuation of the Plan as at December 31, 2016 will be carried out subsequent to the completion of these financial statements. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

b) NET EXPERIENCE GAINS

Net experience gains of $95,800 (2015: $270,000) arose from differences between the actuarial assumptions used in the 2015 valuation and 2016 extrapolation for reporting compared to actual results.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2016:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings [1]
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	2,452,300	0.9
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	1,646,000	1.5
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	5,832,300	3.3

[1] The current service cost as a percentage of pensionable earnings as determined by the December 31, 2016 extrapolation was 17.21%.

NOTE 6 DEFICIT

	2016	2015
	($ thousands)	
Deficit at beginning of year	$ (923,416)	$ (2,454,636)
Increase in net assets available for benefits	3,303,359	3,629,220
Net increase in pension obligation	(3,017,300)	(2,098,000)
Deficit at end of year	$ (637,357)	$ (923,416)

NOTE 7 CONTRIBUTIONS

	2016	2015
	($ thousands)	
Current and optional service		
Employers	$ 1,330,104	$ 1,271,283
Employees	1,227,828	1,169,738
Past service		
Employers	11,405	11,654
Employees	23,545	24,074
	$ 2,592,882	$ 2,476,749

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	Income	Change in Fair Value	2016 Total	2015 Total
	($ thousands)			
Fixed Income	$ 711,614	$ (437,568)	$ 274,046	$ 422,546
Inflation sensitive and alternatives				
Real estate	310,361	(86,030)	224,331	429,730
Real return bonds	102,332	(44,261)	58,071	36,615
Infrastructure	327,781	(153,902)	173,879	309,199
Timberland	(7,936)	49,120	41,184	29,651
	732,538	(235,073)	497,465	805,195
Short horizon				
Canadian equities	252,718	440,442	693,160	(299,907)
Foreign equities	874,688	(100,394)	774,294	1,855,738
	1,127,406	340,048	1,467,454	1,555,831
Long horizon				
Private equities	89,515	(89,285)	230	94,883
Strategic, tactical and currency investments	(5,854)	2,578	(3,276)	(216,261)
	$ 2,655,219	$ (419,300)	$ 2,235,919	$ 2,662,194

NOTE 8 INVESTMENT INCOME CONTINUED

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $121,732 and $(535,286) respectively (2015: $170,575 and $523,690 respectively). Realized and unrealized gains and losses on currency hedges total $(54,929) and $49,183 respectively (2015: $(380,077) and $12,998 respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.0	6.7	12.9	11.0	9.5
Value (lost) added by AIMCo	(0.2)	1.2	(1.5)	0.3	1.6
Total return on investments [(a)]	**5.8**	**7.9**	11.4	11.3	11.1
Other sources [(b)]	3.8	3.9	4.6	4.8	5.2
Per cent change in net assets [(c)]	**9.6**	**11.8**	**16.0**	**16.1**	**16.3**
Per cent change in pension obligation [(c)]	**8.5**	**6.3**	**5.8**	**12.8**	**14.6**
Per cent of pension obligation supported by net assets	**98**	**97**	**93**	**85**	**82**

[(a)] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 9.5% (PBR: 9.2%), ten years is 6.1% (PBR: 6.4%) and twenty years is 7.1% (PBR: 7.1%). The actuarial funding valuation of the Plan as at December 31, 2016 includes an estimate of the long-term net investment return on assets, less a margin for adverse deviation, of 5.25% (2015: 5.50%).

[(b)] Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

[(c)] The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2016	**2015**
Retirement benefits	$ 1,005,634	$ 923,324
Disability benefits	8,315	8,294
Termination benefits	240,330	290,712
Death benefits	56,788	68,414
	$ 1,311,067	$ 1,290,744

NOTE 11 INVESTMENT EXPENSE

	($ thousands)	
	2016	**2015**
Amounts charged by AIMCo for:		
Investment costs [a]	$ 152,257	$ 138,449
Performance based fees [a]	16,432	44,250
GST	5,416	4,944
	174,105	187,643
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 174,157	$ 187,695
(Decrease) increase in expenses [a]	(7.2%)	12.9%
Increase in average investments under management	10.8%	13.7%
(Decrease) increase in value of investments attributed to AIMCo	(0.2%)	1.2%
Investment expense as a per cent of:		
Dollar earned	7.8%	7.1%
Dollar invested	0.5%	0.6%
Investment expenses per member	$ 686	$ 767

[a] Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent (decrease) increase in investment costs and performance based fees is (7.7%) (2015: 20.2%).

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands)	
	2016	**2015**
General administration costs and process improvement costs		
Alberta Pensions Services Corporation (APS)	$ 36,466	$ 34,599
Alberta Local Authorities Pension Plan Corporation (ALAPP Corp.)	2,182	2,085
Actuarial fees	165	252
	38,813	36,936
Member service expenses per member	$ 153	$ 151

General administration costs and process improvement costs, including the Board costs were paid to APS and ALAPP Corp. on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board, Minister of Finance.

NOTE 12 ADMINISTRATIVE EXPENSES CONTINUED

ALAPP Corp. costs include remuneration to senior officials and the Board members as follows:

($ thousands)

	2016				2015
	Base Salary (a)	Other Cash Benefits (b)	Other Non-Cash Benefits (c)	Total	Total
Corporation Board Chair (d)	$ -	$ -	$ -	$ -	$ -
Corporation Board Members (excluding Chair) (d)	-	68	-	68	80
President & Chief Executive Officer	248	62	67	377	356
Vice-Presidents:					
Investments	153	55	7	215	211
Pension Policy & Funding	152	31	39	222	211
Stakeholder Relations	158	30	43	231	219

(a) Base salary includes regular base pay.

(b) Other cash benefits include incentive pay, lump sum payments, vacation payouts and car allowance honoraria.

(c) Other non-cash benefits include the Corporation's share of all employees' benefits and contributions or payments made on their behalf including pension, health care, dental coverage, professional memberships and group life insurance.

(d) Remuneration paid for the services of the Chair and 13 board members is classified under Board Meeting Fees and is paid in accordance with the fee structure approved by the President of Treasury Board, Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $212,970 (2015: $224,631) or $839 (2015: $918) per member and 0.56% (2015: 0.65%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset value for funding valuation purposes amounted to $37,684,400 at December 31, 2016 (2015: $34,713,500).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency as determined by actuarial funding valuations is being funded by special payments currently totaling 7.39% of pensionable earnings shared equally between employers and employees until December 31, 2028. The special payments have been included in the rates in effect at December 31, 2016 (see Note 1b).

NOTE 15 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, ALAPP Corp., AIMCo and the Plan's actuary, and after consultation with the Board.

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MANAGEMENT EMPLOYEES PENSION PLAN

Financial Statements

Year Ended December 31, 2016

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Independent Auditor's Report

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Management Employees Pension Plan, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Management Employees Pension Plan as at December 31, 2016, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2017

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2016

	($ thousands) 2016	2015
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 4,606,962	$ 4,314,765
Contributions receivable		
Employers	4,985	4,733
Employees	2,987	2,789
Receivable for investment sales	5,000	6,563
Accounts receivable	1,891	2,393
Total Assets	4,621,825	4,331,243
Liabilities		
Accounts payable	4,016	284
Liabilities for investment purchases	5,659	6,563
Total Liabilities	9,675	6,847
Net assets available for benefits	$ 4,612,150	$ 4,324,396
Pension obligation and surplus		
Pension obligation (Note 5)	$ 4,210,117	$4,025,345
Surplus (Note 6)	402,033	299,051
Pension obligation and surplus	$ 4,612,150	$ 4,324,396

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016

	($ thousands) 2016	2015
Increase in Assets		
Contributions (Note 7)	$ 210,623	$ 212,676
Investment income (Note 8)	305,972	451,687
Transfers from other plans, net	5,846	7,883
	522,441	672,246
Decrease in Assets		
Benefit payments (Note 10)	206,614	197,731
Investment expenses (Note 11)	25,603	31,387
Administrative expenses (Note 12)	2,470	2,330
	234,687	231,448
Increase in net assets	287,754	440,798
Net assets available for benefits at beginning of year	4,324,396	3,883,598
Net assets available for benefits at end of year	$ 4,612,150	$ 4,324,396

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2016

	($ thousands) 2016	($ thousands) 2015
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 246,554	$ 241,835
Benefits earned	133,781	128,730
Net experience losses (Note 5b)	49,043	-
	429,378	370,565
Decrease in pension obligation		
Benefits, transfers and interest	200,768	189,848
Net decrease (increase) due to actuarial assumption changes (Note 5a)	43,838	(36,835)
	244,606	153,013
Net increase in pension obligation	184,772	217,552
Pension obligation at beginning of year	4,025,345	3,807,793
Pension obligation at end of year (Note 5)	$ 4,210,117	$ 4,025,345

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2016

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Management Employees Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act,* Revised Statutes of Alberta 2000, Chapter P-41 and the *Management Employees Pension Plan* Alberta Regulation 367/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible management employees of the Province of Alberta and certain approved provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were active contributors at August 1, 1992, and have not withdrawn from the Plan since that date, continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0570887. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan receives advice from the Management Employees Pension Board (the Board).

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded by employees and employers at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2016 were 12.80% (2015: 12.80%) of the capped salary for employees and 21.85% (2015: 21.85%) for employers. The capped salary is set to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*.

The contribution rates are reviewed and approved at least once every three years by the President of Treasury Board, Minister of Finance, in consultation with the Board, based on recommendations of the Plan's actuary. As a result of this review, the contribution rate for employers will be reduced from 21.85% to 17.20% effective February 1, 2017 and the employee rate will remain the same.

c) RETIREMENT BENEFITS

The Plan provides a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. Pensionable earnings after December 31, 1991 are capped to ensure the benefit accrual is not greater than the defined benefit limit under the *Income Tax Act*. The maximum combined pensionable service allowable under the Plan is 35 years.

Members are entitled to an unreduced pension on service before 1992 if they have attained age 55 and have at least five years of combined pensionable service.

Vested members are entitled to an unreduced pension on service after 1991 if they have either attained age 60, or age 55 and the sum of their age and years of combined pensionable service equals 80. Pensions on service after 1991 are reduced if the member is under age 60 and the 80 factor is not attained.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of combined pensionable service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension, or a lump sum payment. For a beneficiary other than a pension partner, or where combined pensionable service is less than five years, the benefits take the form of a lump sum payment.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least five years of combined pensionable service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund.

Members who terminate with fewer than five years of combined pensionable service receive a refund of their contributions plus interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and losses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury

Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

i. Income distributions from the pools, based on the Plan's pro-rata share of total units issued by the pools, and

ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income, (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds and real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumptions or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the MEPP Investment Policy (IP) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [(a)]			2016	2015
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Money market and fixed income					
Deposits and short-term securities	$ -	$ 29,455	$ -	$ 29,455	$ 23,657
Bonds, mortgages and private debt	-	627,830	214,653	842,483	771,060
	-	657,285	214,653	871,938	794,717
Equities					
Canadian	594,402	53,495	5,199	653,096	523,308
Foreign	948,505	185,216	616,170	1,749,891	1,656,384
Private	-	-	224,584	224,584	247,165
	1,542,907	238,711	845,953	2,627,571	2,426,857
Inflation sensitive					
Real estate	-	-	364,015	364,015	360,866
Infrastructure	-	-	242,640	242,640	256,460
Real return bonds	-	447,799	-	447,799	412,620
	-	447,799	606,655	1,054,454	1,029,946
Strategic, tactical and currency investments *	-	4,057	48,942	52,999	63,245
Total investments	$ 1,542,907	$ 1,347,852	$ 1,716,203	$ 4,606,962	$ 4,314,765

* This asset class is not listed separately in the IP as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) Fair Value Hierarchy: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $1,542,907 (2015: $1,355,316).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $1,347,852 (2015: $1,216,821). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $1,716,203 (2015: $1,742,628).

Reconciliation of Level 3 Fair Value Measurement

	($ thousands)	
	2016	**2015**
Balance, beginning of year	$ 1,742,628	$ 1,398,733
Investment income *	97,502	240,267
Purchases of Level 3 pooled fund units	208,537	298,570
Sale of Level 3 pooled fund units	(332,464)	(194,942)
Balance, end of year	$ 1,716,203	$ 1,742,628

* Investment income includes unrealized gains (losses) of $(54,296) (2015: $178,851).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Money market and fixed income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

NOTE 3 INVESTMENTS

CONTINUED

- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. Infrastructure investments are valued similar to private equity investments. Real return bonds are valued similar to public interest bearing securities.
- ***Strategic, tactical and currency investments***: The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the IP approved by the Board. The purpose of the IP is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016 ($ thousands)	2016 %	Actual Asset Mix 2015 ($ thousands)	2015 %
Money market and fixed income	15 - 30%	$ 871,938	18.9	$ 794,717	18.4
Equities	40 - 62%	2,627,571	57.0	2,426,857	56.2
Inflation sensitive	15 - 40%	1,054,454	22.9	1,029,946	23.9
Strategic, tactical and currency investments	(a)	52,999	1.2	63,245	1.5
		$ 4,606,962	100.0	$ 4,314,765	100.0

(a) In accordance with the IP, AIMCo may invest up to 2% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at their discretion, invest the funds in currency overlays.

a) **Credit Risk**

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	86.3%	86.2%
Speculative Grade (BB+ or lower)	0.1%	0.0%
Unrated	13.6%	13.8%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2016, the Plan's share of securities loaned under this program is $374,090 (2015: $201,724) and collateral held totals $396,935 (2015: $216,820). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar.

Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 37% (2015: 44%) of the Plan's investments, or $1,717,052 (2015: $1,918,178), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 20% (2015: 22%) and the Euro, 4% (2015: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.7% of total investments (2015: 4.4%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2016:

	($ thousands)			
	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 904,089	$ (90,409)	$ 952,698	$ (95,270)
Euro	171,841	(17,184)	190,741	(19,074)
Japanese yen	125,867	(12,587)	144,057	(14,406)
British pound	94,730	(9,473)	133,225	(13,322)
Hong Kong dollar	54,046	(5,404)	73,042	(7,304)
Other foreign currencies (below 1%)	366,479	(36,648)	424,415	(42,442)
Total foreign currency investments	$1,717,052	$(171,705)	$1,918,178	$(191,818)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest-bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 2.6% of total investments (2015: 2.6%).

d) Price Risk

Price risk relates to the possibility that pools units will change in value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.9% of total investments (2015: 6.6%).

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2016	2015
Contracts in favourable position (current credit exposure)	42	$ 24,240	$ 18,939
Contracts in unfavourable position	14	(8,553)	(43,367)
Net fair value of derivative contracts	56	$ 15,687	$ (24,428)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $24,240 (2015: $18,939) were to default at once.

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share ($ thousands)	
Types of derivatives used in pools	2016	2015
Structured equity replication derivatives	$ 13,070	$ (2,075)
Foreign currency derivatives	2,706	(15,855)
Interest rate derivatives	(1,680)	(7,196)
Credit risk derivatives	1,591	698
Net fair value of derivative contracts	$ 15,687	$ (24,428)

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2016 deposits in futures contracts margin accounts totalled $11,180 (2015: $11,429) and deposits as collateral for derivative contracts totalled $1,254 (2015: $3,468).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2015 by Aon Hewitt and was then extrapolated to December 31, 2016.

The actuarial assumptions used in determining the value of the pension obligation of $4,210,117 (2015: $4,025,345) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2016	2015
	%	
Discount rate	6.00	6.10
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2018. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2019.

b) NET EXPERIENCE LOSSES

Net experience losses of $49,043 (2015: $nil) reflect the results of the valuation as at December 31, 2015 extrapolated to December 31, 2016

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2016:

	($ thousands)		
	Changes in Assumptions	**Increase in Plan Deficiency**	**Increase in Current Service Cost as a % of Pensionable Earnings ***
	%	$	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	300,000	1.9
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	28,700	0.6
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	567,000	4.4

* The current service cost of accruing benefits (including 0.4% allowance for administration expenses) as a percentage of pensionable earnings as at December 31, 2015 valuation was 22.6%.

NOTE 6 SURPLUS

	($ thousands) 2016	($ thousands) 2015
Surplus at beginning of year	$ 299,051	$ 75,805
Increase in net assets available for benefits	287,754	440,798
Net increase in pension obligation	(184,772)	(217,552)
Surplus at end of year	$ 402,033	$ 299,051

NOTE 7 CONTRIBUTIONS

	($ thousands) 2016	($ thousands) 2015
Current service		
Employers	$ 130,958	$ 131,995
Employees	76,913	77,417
Past service		
Employers	748	732
Employees	2,004	2,532
	$ 210,623	$ 212,676

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

($ thousands)	Income	Changes in Fair Value	2016 Total	2015 Total
Money market and fixed income	$ 54,878	$ (27,500)	$ 27,378	$ 31,424
Equities				
Canadian	40,352	74,839	115,191	(41,881)
Foreign	127,179	(17,104)	110,075	330,047
Private	15,394	(3,879)	11,515	34,654
	182,925	53,856	236,781	322,820
Inflation sensitive				
Real estate	23,792	(5,884)	17,908	32,348
Infrastructure	51,051	(26,399)	24,652	43,276
Real return bonds	25,455	(10,847)	14,608	11,122
	100,298	(43,130)	57,168	86,746
Strategic, tactical and currency investments	(1,885)	(13,470)	(15,355)	10,697
	$ 336,216	$ (30,244)	$ 305,972	$ 451,687

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $24,111 and $(39,757) respectively (2015: $16,733 and $120,681 respectively). Realized and unrealized gains and losses on currency hedges total $(13,964) and $(634) respectively (2015: $(21,531) and $6,769 respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
			in per cent		
Increase in net assets attributed to:					
Investment income					
Policy benchmark return on investments	5.8	8.4	12.0	14.9	9.8
Value added (lost) by AIMCo	0.7	2.4	(0.7)	-	2.5
Total return on investments [(a)]	**6.5**	**10.8**	**11.3**	**14.9**	**12.3**
Other sources [(b)]	0.2	0.5	0.8	1.1	1.0
Per cent change in net assets [(c)]	**6.7**	**11.3**	**12.1**	**16.0**	**13.3**
Per cent change in pension obligation [(c)]	**4.6**	**5.7**	**11.6**	**3.7**	**4.3**
Per cent of pension obligation supported by net assets	**110**	**107**	**102**	**101**	**91**

[(a)] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 11.1% (PBR: 10.2%), ten years is 6.4% (PBR: 6.3%) and twenty years is 7.4% (PBR: 7.2%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 5.5% (2015: 6.25%).

[(b)] Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

[(c)] The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2016	**2015**
Retirement benefits	$ 186,616	$ 175,361
Disability benefits	278	286
Termination benefits	16,685	14,409
Death benefits	3,035	7,675
	$ 206,614	$ 197,731

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2016	($ thousands) 2015
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 21,608	$ 21,651
Performance based fees [(a)]	3,121	8,737
GST	822	947
	25,551	31,335
Amounts charged by Treasury Board and Finance for :		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 25,603	$ 31,387
(Decrease) increase in expenses [(a)]	(18.4%)	18.5%
Increase in average investments under management	8.8%	11.6%
Increase in value of investments attributed to AIMCo	0.7%	2.4%
Investment expenses as a percent of:		
Dollar earned	8.4%	6.9%
Dollar invested	0.6%	0.8%
Investment expenses per member	$ 2,189	$ 2,811

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent (decrease) increase in investment costs and performance based fees is (18.6%) (2015: 23.7%).

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2016	($ thousands) 2015
General administration costs	$ 2,126	$ 2,100
Board costs	51	64
Actuarial fees	161	32
Other professional fees	132	134
	2,470	2,330
Member service expenses per member	$ 211	$ 209

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board, Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $28,073 (2015: $33,717) or $2,400 (2015: $3,020) per member and 0.61% (2015: 0.78%) of net assets under administration

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's IP approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However, for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $4,348,328 at December 31, 2016 (2015: $3,939,196).

In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2015 actuarial funding valuation is being funded by special payments currently totalling 10.2% of pensionable earnings shared between employees and employers until December 31, 2016. Thereafter, the special payments will decrease successively to 5.0% until December 31, 2024 and to 2.9% until December 31, 2027.

The special payments have been included in the rates in effect at December 31, 2016 (see Note 1b).

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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PROVINCIAL JUDGES AND MASTERS IN CHAMBERS REGISTERED AND UNREGISTERED PENSION PLANS

Financial Statements

Year Ended March 31, 2017

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Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan, which comprise the statements of financial position as at March 31, 2017, and the statements of changes in net assets available for benefits and changes in pension obligations for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained in my audits is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Provincial Judges and Masters in Chambers Registered Pension Plan and the Provincial Judges and Masters in Chambers Unregistered Pension Plan as at March 31, 2017, and the changes in the plans' net assets available for benefits and changes in the plans' pension obligations for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

June 7, 2017

Edmonton, Alberta

Statements of Financial Position

As at March 31, 2017

	Registered Plan Note 1a ($ thousands)		Unregistered Plan Note 1a ($ thousands)	
	2017	**2016**	**2017**	**2016**
Net Assets Available for Benefits				
Assets				
Cash and cash equivalents (Note 3)	$ -	$ -	$ 673	$ 370
Investments (Note 4)	147,050	135,434	-	-
GST receivable	17	27	-	-
Other receivable	-	25	-	13
Income tax refundable	-	-	3,335	5,089
Due from Reserve Fund (Note 6)	-	-	189,715	164,859
Total assets	147,067	135,486	193,723	170,331
Liabilities				
Accounts payable	25	19	123	167
Total Liabilities	25	19	123	167
Net assets available for benefits	$ 147,042	$ 135,467	$ 193,600	$ 170,164
Pension obligation and (deficit)				
Pension Obligation (Note 7)	139,466	135,738	209,263	192,975
Surplus (Deficit) (Note 8)	7,576	(271)	(15,663)	(22,811)
Pension obligation and (deficit)	$ 147,042	$ 135,467	$ 193,600	$ 170,164

The accompanying notes are part of these financial statements.

Other Information

Statements of Changes in Net Assets Available for Benefits

Year ended March 31, 2017

	Registered Plan ($ thousands) 2017	Registered Plan ($ thousands) 2016	Unregistered Plan ($ thousands) 2017	Unregistered Plan ($ thousands) 2016
Increase in assets				
Contributions (Note 9)	$ 5,227	$ 5,134	$ 2,605	$ 3,108
Investment income (Note 10)	15,169	3,175	37	22
Transfers from the Reserve Fund	-	-	2,803	2,450
Increase in due from Reserve Fund	-	-	24,856	10,360
	20,396	8,309	30,301	15,940
Decrease in assets				
Benefit payments (Note 12)	7,983	7,830	6,757	6,209
Investment expenses (Note 13)	745	705	23	26
Administrative expenses (Note 14)	93	82	85	81
	8,821	8,617	6,865	6,316
Increase (decrease) in net assets	11,575	(308)	23,436	9,624
Net assets available for benefits at beginning of year	135,467	135,775	170,164	160,540
Net assets available for benefits at end of year	$ 147,042	$ 135,467	$ 193,600	$ 170,164

The accompanying notes are part of these financial statements.

Statements of Changes in Pension Obligation

Year ended March 31, 2017

	Registered Plan ($ thousands) 2017	Registered Plan ($ thousands) 2016	Unregistered Plan ($ thousands) 2017	Unregistered Plan ($ thousands) 2016
Increase in pension obligation				
Interest accrued on benefits	$ 7,334	$ 7,504	$ 9,404	$ 9,188
Benefits earned	4,074	4,141	10,495	13,194
Net experience losses	-	-	348	(228)
Increase due to actuarial assumption changes	1,701	-	2,798	-
Impact of Judical Compensation Commission	-	7	-	1,431
	13,109	11,652	23,045	23,585
Decrease in pension obligation				
Benefits, transfers and interest	7,983	7,830	6,757	6,209
Decrease due to actuarial assumption changes	-	700	-	1,823
Net experience gains	1,398	1,153	-	-
	9,381	9,683	6,757	8,032
Net increase in pension obligation	3,728	1,969	16,288	15,553
Pension obligation at beginning of year	135,738	133,769	192,975	177,422
Pension obligation at end of year (Note 7)	$ 139,466	$ 135,738	$ 209,263	$ 192,975

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

March 31, 2017

(all dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Provincial Judges and Masters in Chambers Registered Pension Plan (Registered Plan) and the Provincial Judges and Masters in Chambers Unregistered Pension plan (Unregistered Plan) is a summary only. The Registered Plan and the Unregistered Plan, collectively, are contributory defined benefit plans for provincial court judges appointed under the *Provincial Court Act* and masters in chambers appointed under the *Court of Queen's Bench Act.* For a complete description of the plans, reference should be made to the *Provincial Judges and Masters in Chambers Registered and Unregistered Pension Plans* Alberta Regulation 196/2001, as amended, which is established pursuant to the *Provincial Court Act*, Revised Statutes of Alberta 2000, Chapter P-31, and the *Court of Queens Bench Act*, Revised statutes of Alberta 2000, Chapter F-12 and the Interpretation Act. The plans are administered and accounted for by the Province of Alberta (Province) separately; however, the regulation allows for the financial report of both plans to be combined within the same report.

a) GENERAL

The plans were established with effect from April 1, 1998. The Registered Plan provides, to members, benefits up to the maximum allowed for registered pension plans under federal tax rules. It is a registered pension plan as defined in the *Income Tax Act* and the registered number is 0927764. The Unregistered Plan which provides benefits, to members, in excess of those limits is a Retirement Compensation Arrangement (RCA) under the *Income Tax Act.* The Registered Plan is financed by contributions from members and the Province as well as investment earnings. The Unregistered Plan is also funded by contributions from members and the Province. Due to the tax treatment of the RCA, contributions and investment income from the RCA are not large enough to provide for all of the expected future benefit payments from the Unregistered Plan. As a result, the Province has established the Provincial Judges and Masters in Chambers Reserve Fund (Reserve Fund) (see Note 6) to collect contributions from the Province. These contributions are provided by the Department of Justice and Solicitor General. The President of Alberta Treasury Board, Minister of Finance is the legal trustee of both plans and Alberta Treasury Board and Finance is management of both plans.

b) FUNDING POLICY

The Registered Plan current service costs are funded by the Province and members at rates which are expected to provide for all benefits payable under the Registered Plan. The rates in effect at March 31, 2017 are 7.00% of *capped salary* for members and 17.75% (2016: 17.75%) of *capped salary for* the Province. In addition, annual payments by the Province of $933 (2016: $932) are made towards the unfunded liability of the Registered Plan. The rates are reviewed at least once every three years by the Province based on recommendations of the plan's actuary.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

The Unregistered Plan contribution rates in effect at March 31, 2017 are unchanged at 7.0% of pensionable salary in excess of capped salary for members and 7.0% of the excess for the Province. The contribution rate for the Province must equal or exceed the rate payable by members and is set by the President of Treasury Board, Minister of Finance, taking into account recommendations of the plan's actuary. If assets held in the Unregistered Plan are insufficient to pay for benefits as they become due, the amount due is payable by the Province.

The current service costs funded by the Province to the Reserve Fund are contributed at a rate of 42.86% of excess pensionable salary. In addition, annual payments by the Province to the Reserve Fund of $2,235 (2016: $2,235) are made towards the unfunded liability of the Unregistered Plan.

c) RETIREMENT BENEFITS

The Registered Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years for retirements prior to April 1, 2006 and three consecutive years for retirements subsequent to March 31, 2006. Pensionable earnings after December 31, 1991 are capped at the maximum pensionable *salary limit*. The capped salary is set to ensure the benefit accrual is not greater than the defined limit under the *Income Tax Act*. The maximum benefit accrual percentage allowable under the Registered Plan is 70%. The normal pensionable age is 70 years of age.

Together the Registered Plan and Unregistered Plan provide a pension based on 2 percent of a member's highest average salary for years of pensionable service before April 1, 1998; 2.67 percent of a member's highest average for years of pensionable service between April 1, 1998 to March 21, 2000 and 3 percent of a member's highest average salary for years of pensionable service after March 31, 2000.

Members who terminated after March 31, 1998 are entitled to an unreduced pension on service after 1991 and before April 1,1998 if they have 5 years of service and have attained the age of 55 years with the sum of his or her age and judicial service amounting to at least 80 years, or has attained the age of 60 years.

Members are entitled to an unreduced pension on service after March 31,1998 if they retire with at least 5 years of service and have attained the age 60 and the sum of their age and service equals 80. Pensions are reduced if the member is under age 60 or if the 80 factor is not attained at age 60. The 80-factor requirement does not apply to members from December 31 in the year the member attained age 71.

DISABILITY BENEFITS

Pensions are payable to members who become totally disabled and retire early with at least five years of service. Reduced pensions are payable to members who become partially disabled and retire early with at least five years of service.

d) DEATH BENEFITS

Death benefits are payable on the death of a member. If the member has at least five years of service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where service is less than five years, a lump sum payment must be chosen.

e) TERMINATION BENEFITS

Members who terminate with fewer than five years of service receive a refund of their own contributions plus interest.

Members who terminate with more than five years of service and are not immediately entitled to a pension may apply for a deferred pension.

f) PROVINCE OF ALBERTA'S LIABILITY FOR BENEFITS

Benefits are payable by the Province if assets are insufficient to pay for all benefits under the plans.

g) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index for persons who terminated before April 1, 2009. For persons who terminated after March 31, 2009, pensions payable are increased each year on January 1st by an amount equal to 100% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. Both plans have elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to the investment portfolio or pension obligations. The statements provide information about the net assets available in both plans to meet future benefit payments and are prepared to assist members and others in reviewing the activities for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 4, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Registered Plan does not report the financial instruments of the pools on its statement of financial position.

The Registered Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Registered Plan reports its share of the financial risks in Note 5.

The fair value of units held by the Registered Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 4b). Investments in units are recorded in the Registered Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Registered Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Registered Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Registered Plan's accounts:

  i. Income distributions from the pools.

  ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Registered Plan to earn investment income (see Note 13). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUE OF PENSION OBLIGATION

The value of the pension obligations and changes therein during the year are based on actuarial valuations prepared by an independent firm of actuaries. The valuations are made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuations use the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation dates, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the pension obligations, private investments, hedge funds and private real estate investments. Uncertainty arises because:

i) actual experience may differ, perhaps significantly, from assumptions used in the calculation of the pension obligations, and

ii) the estimated fair values of the private investments, hedge funds, timberland and private real estate investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the pension obligations, private investments, hedge funds, timberland and real estate investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the pension obligations are disclosed as net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Registered Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

The Unregistered Plan is a RCA as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Unregistered Plan at the same rate when pension benefit payments are made to members and beneficiaries.

NOTE 3 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund (CCITF). The CCITF is managed with the objective of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The CCITF is a pool comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at March 31, 2017, securities held by the CCITF have a time weighted rate of return of 0.9% per annum (2016: 0.8% per annum).

NOTE 4 INVESTMENTS

The Registered Plan's investments are managed at the asset class level for purposes of evaluating the plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Registered Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Judges' Pension Plans Investment Committee (the Investment Committee). The fair value of the pool units is based on the Registered Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Registered Plan, and units of the pools, within the ranges approved for each asset class (see Note 5).

($ thousands)

	Fair Value Hierarchy [(a)]			2017	2016
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Fixed income securities					
Deposits and short-term securities	$ -	$ 1,028	$ -	$ 1,028	$ 1,264
Bonds, mortgages and private debt	-	46,358	4,934	51,292	48,015
	-	47,386	4,934	52,320	49,279
Equities					
Canadian	17,830	1,394	4,255	23,479	21,611
Global	27,355	3,709	9,265	40,329	35,532
	45,185	5,103	13,520	63,808	57,143
Inflation sensitive					
Real estate	-	-	21,473	21,473	21,515
Infrastructure	-	-	7,534	7,534	5,809
Timberland	-	-	1	1	-
	-	-	29,008	29,008	27,324
Strategic and currency investments*	-	8	1,906	1,914	1,688
Total investments	$ 45,185	$ 52,497	$ 49,368	$ 147,050	$ 135,434

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 5).

a) Fair Value Hierarchy:

The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $45,185 (2016: $34,217).

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $52,497 (2016: $54,114). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, and inflation sensitive investments totalling $49,368 (2016: $47,103).

Reconciliation of Level 3 Investments

	($ thousands)	
	2017	**2016**
Balance, beginning of year	$ 47,103	$ 37,933
Investment income *	5,115	2,874
Purchases of Level 3 pooled fund units	13,613	12,557
Sale of Level 3 pooled fund units	(16,463)	(6,261)
Balance, end of year	$ 49,368	$ 47,103

* Investment income includes unrealized (losses) and gains of $(983) (2016: $763).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed income securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of infrastructure is estimated by managers or general partners of infrastructure funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. More established investments are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.

NOTE 4 INVESTMENTS CONTINUED

- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. Currency investments consists of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pools (see Note 5f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 5 INVESTMENT RISK MANAGEMENT

The Registered Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Registered Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Registered Plan are clearly outlined in the SIP&G approved by the Investment Committee. The purpose of the SIP&G is to ensure the Registered Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Investment Committee manages the Registered Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 5b).

Actuarial liabilities of the Registered Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Investment Committee has established the following target policy asset mix:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2017		Actual Asset Mix 2016	
		($ thousands)	%	*($ thousands)*	%
Fixed income securities	30 - 45%	$ 52,320	35.6	$ 49,279	36.4
Equities	30 - 50%	63,808	43.4	57,143	42.2
Inflation sensitive	15 - 35%	29,008	19.7	27,324	20.2
Strategic and currency investments	(a)	1,914	1.3	1,688	1.2
		$ 147,050	100.0	$ 135,434	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Registered Plan's investments in opportunistic investments that are outside of the asset classes listed above. AIMCo may, at its discretion, use currency overlays to an economic exposure limit of 5% of the market value of the Registered Plan.

a) Credit Risk

i) Debt securities

The Registered Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 4 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Registered Plan's investment in debt securities by counterparty credit rating at March 31, 2017:

Credit rating	2017	2016
Investment Grade (AAA to BBB-)	91.3%	91.9%
Speculative Grade (BB+ or lower)	0.3%	0.0%
Unrated	8.4%	8.1%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Registered Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 5f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At March 31, 2017, the Registered Plan's share of securities loaned under this program is $10,478 (2016: $4,960) and collateral held totals $11,049 (2016: $5,228). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Registered Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 27% (2016: 27%) of the Registered Plan's investments, or $40,130 (2016: $36,461), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 14% (2016: 14%) and the Euro, 3% (2016: 3%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Registered Plan would be approximately 2.7% of total investments (2016: 2.7%).

The following table summarizes the Registered Plan's exposure to foreign currency investments held in the pools at March 31, 2017:

	($ thousands)			
	2017		2016	
Currency [a]	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 21,226	$ (2,123)	$ 18,950	$ (1,895)
Euro	4,600	(460)	4,084	(408)
Japanese yen	2,889	(289)	2,700	(270)
British pound	2,112	(211)	2,194	(219)
Other foreign currency	9,303	(930)	8,533	(853)
Total foreign currency investments	$ 40,130	$ (4,013)	$ 36,461	$ (3,646)

[a] Information on specific currencies is disclosed when the current year fair value is greater than 1% of the Registered Plan's net assets.

c) Interest Rate Risk

The Registered Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Registered Plan would be approximately 2.3% (2016: 2.5%) of total investments.

d) Price Risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Registered Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Registered Plan would be approximately 4.9% of total investments (2016: 4.9%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Registered Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Registered Plan are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate and infrastructure are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. The sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Registered Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 5f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Registered Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	2017	2016
Contracts in favourable position (current credit exposure)	41	$ 858	$ 1,451
Contracts in unfavourable position	11	(468)	(658)
Net fair value of derivative contracts	52	$ 390	$ 793

[i] Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $858 (2016: $1,451) were to default at once.

[ii] Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

NOTE 5 INVESTMENT RISK MANAGEMENT CONTINUED

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 5. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share	
	($ thousands)	
Types of derivatives used in pools	**2017**	**2016**
Structured equity replication derivatives	$ 243	$ 629
Interest rate derivatives	30	(207)
Foreign currency derivatives	19	324
Credit risk derivatives	98	47
Net fair value of derivative contracts	$ 390	$ 793

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At March 31, 2017 deposits in futures contracts margin accounts totalled $149 (2016: $435) and deposits as collateral for derivative contracts totalled $nil (2016: $25).

NOTE 6 DUE FROM RESERVE FUND

The Provincial Judges and Masters in Chambers Reserve Fund is established to collect contributions from the Province and to invest the funds, which are set aside to meet future benefit payments of the Unregistered Plan. Separate financial statements are prepared for the Reserve Fund and can be found in the Ministry of Alberta Treasury Board and Finance Annual Report. The table below summarizes the net assets of the Reserve Fund at March 31.

	($ thousands)	
	2017	**2016**
Interest-bearing securities	$ 80,491	$ 71,609
Public equities	79,307	66,950
Alternatives	28,098	25,196
Strategic currency investments	1,819	1,104
	$ 189,715	$ 164,859

During the year, net assets of the Reserve Fund increased by $24,856 (2016: $10,360), comprised of employer contributions of $10,063 (2016: $11,191), investment income of $18,370 (2016: $2,289) less investment expenses of $774 (2016: $670) and transfers of $2,803 (2016: $2,450).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

Actuarial valuations of both plans were carried out as at March 31, 2014 by Aon Hewitt and the results were then extrapolated to March 31, 2017. The next valuations of the plans will be carried out as at March 31, 2017. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the plans and will be accounted for as gains or losses in 2018.

The Registered Plan

The actuarial assumptions used in determining the value of the pension obligation of $139,466 (2016: $135,738) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment rate of return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2017 %	2016 %
Discount rate	5.30	5.40
Inflation rate	2.00	2.00
Salary escalation rate	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

The Unregistered Plan

The major assumptions used in the actuarial extrapolation to March 31, 2017 to determine the pension obligation of $209,263 (2016: 192,975) were the same as those used in the extrapolation of the Registered Plan except for the investment rate of return which was assumed to be 4.6% per annum (2016: 4.7%).

NET EXPERIENCE GAINS (LOSSES)

The Registered Plan net experience gains of $1,398 (2016: $1,153) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2017.

The Unregistered Plan net experience losses of $348 (2016: gains of $228) reflect the results of the valuation as at March 31, 2014 extrapolated to March 31, 2017.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTION

The Registered Plan's future experience will differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the plan.

The following is a summary of the sensitivities of the Registered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2017:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	*($ millions)*	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	$11.3	2.7%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$0.0	0.0%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$16.7	5.1%

* As a % of capped pensionable earnings

The following is a summary of the sensitivities of the Unregistered Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation as at March 31, 2017:

	Sensitivities		
	Changes in Assumptions	Decrease in Plan Surplus	Increase in Current Service Cost*
	%	*($ millions)*	
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0%	$22.0	6.9%
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0%	$8.1	4.9%
Investment rate of return decrease holding inflation rate and salary escalation assumptions constant	(1.0%)	$31.4	12.9%

* As a % of excess pensionable earnings

NOTE 8 SURPLUS (DEFICIT)

	Registered Plan ($ thousands) 2017	Registered Plan ($ thousands) 2016	Unregistered Plan ($ thousands) 2017	Unregistered Plan ($ thousands) 2016
(Deficit) surplus at beginning of year	$ (271)	$ 2,006	$ (22,811)	$ (16,882)
Increase (decrease) in net assets available for benefits	11,575	(308)	23,436	9,624
Net increase in pension obligation	(3,728)	(1,969)	(16,288)	(15,553)
Surplus (deficit) at end of year	$ 7,576	$ (271)	$ (15,663)	$ (22,811)

NOTE 9 CONTRIBUTIONS

	Registered Plan ($ thousands) 2017	Registered Plan ($ thousands) 2016	Unregistered Plan ($ thousands) 2017	Unregistered Plan ($ thousands) 2016
Current service				
Employer	$ 3,085	$ 3,004	$ 1,302	$ 1,554
Employees	1,209	1,198	1,303	1,554
Province of Alberta	933	932	-	-
	$ 5,227	$ 5,134	$ 2,605	$ 3,108

NOTE 10 INVESTMENT INCOME

The following is a summary of the Registered Plan's investment income (loss) by asset class:

	($ thousands) Income	Change in Fair Value	2017 Total	2016 Total
Fixed income securities	$ 3,181	$ (1,417)	1,764	$ 1,072
Equities				
Canadian	1,404	2,274	3,678	(870)
Foreign	5,169	2,843	8,012	291
	6,573	5,117	11,690	(579)
Inflation sensitive				
Real estate	1,334	(110)	1,224	1,453
Infrastructure	603	(135)	468	967
	1,937	(245)	1,692	2,420
Strategic and currency investments	(197)	220	23	262
	$ 11,494	$ 3,675	$ 15,169	$ 3,175

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $2,340 and $1,329 respectively (2016: $514 and $(5,224) respectively). Realized and unrealized gains and losses on currency hedges total $(48) and $54 respectively (2016: $(203) and $126 respectively).

Income earned in pools is distributed to the Registered Plan daily based on the plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

The Unregistered Plan had interest income of $37 (2016: $22).

NOTE 11 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of the Registered Plan's investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2017	2016	2015	2014	2013
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	9.5	0.1	13.1	13.4	8.8
Value added (lost) by AIMCo	1.3	1.8	(0.4)	1.1	1.9
Total return on investments [(a)]	**10.8**	**1.9**	**12.7**	**14.5**	**10.7**
Other sources [(b)]	(2.3)	(2.1)	(3.0)	(2.9)	(2.8)
Per cent change in net assets [(c)]	**8.5**	**(0.2)**	**9.7**	**11.6**	**7.9**
Per cent change in pension obligation [(c)]	**2.7**	**1.5**	**6.6**	**11.0**	**9.1**
Per cent of pension obligation supported by net assets	**105**	**100**	**101**	**99**	**98**

(a) All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.0% (PBR: 8.9%), ten years is 6.2% (PBR: 5.9%) and 20 years is 7.2% (PBR: 6.9%).

(b) Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

(c) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

The following is a summary of the Unregistered Plan annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2017	2016	2015	2014	2013
Per cent change in net assets [(a)]	**13.8**	**6.0**	**14.7**	**17.9**	**13.7**
Per cent change in pension obligation [(a)]	**8.4**	**8.8**	**15.6**	**15.8**	**21.1**
Per cent of pension obligation supported by net assets	**93**	**88**	**90**	**91**	**90**

(a) The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 12 BENEFIT PAYMENTS

	Registered Plan ($ thousands)		Unregistered Plan ($ thousands)	
	2017	2016	2017	2016
Retirement benefits	$ 7,534	$ 7,406	$ 6,448	$ 5,911
Death benefits	417	424	276	298
Termmination Benefits	32	-	33	
	$ 7,983	$ 7,830	$ 6,757	$ 6,209

NOTE 13 INVESTMENT EXPENSES

The Registered Plan has investment expenses of:

	($ thousands) 2017	2016
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 561	$ 570
Performance based fees [(a)]	118	84
GST	35	20
	714	674
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	31	31
Total investment expenses	$ 745	$ 705
Increase (decrease) in expenses	5.7%	(5.4%)
Increase in average investments under management	4.2%	4.5%
Increase in value of investments attributed to AIMCo	1.3%	1.8%
Investment expense as a percent of:		
Dollar earned	4.9%	22.2%
Dollar invested	0.5%	0.5%
Investment expenses per member	$ 2,587	$ 2,509

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase (decrease) in investment costs and performance based fees is 3.8% (2016: (1.1)%).

The Unregistered Plan investment expenses amounted to $23 (2016: $26) or $85 (2016: $97) per member.

Other Information

NOTE 14 ADMINISTRATIVE EXPENSES

	Registered Plan *($ thousands)* 2017	 2016	Unregistered Plan *($ thousands)* 2017	 2016
General administration costs	$ 83	$ 74	$ 79	$ 74
Actuarial fees	8	5	6	7
Other fees	2	3		-
	93	82	85	81
Member service expenses per member	$ 323	$ 291	$ 313	$ 303

General Administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

NOTE 15 TOTAL EXPENSES

Total Registered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $838 (2016: $787) or $2,910 (2016: $2,800) per member and 0.57% (2016: 0.58%) of net assets under administration.

Total Unregistered Plan expenses of investment expenses per Note 13 and administrative expenses per Note 14 are $108 (2016: $107) or $398 (2016: $400) per member and 0.06% (2016: 0.06%) of net assets under administration.

NOTE 16 CAPITAL

The Registered Plan defines its capital as the funded status. In accordance with the *Employment Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, including the use of derivatives and leverage are based on the plan's SIP&G. The asset mix and risk policies and procedures are designed to enable the plan to meet or exceed its long-term funding requirement within an acceptable level of risk.

If there is an actuarial funding surplus that exceeds the amount that is actuarially determined to be necessary to pay benefits and the costs of administering the plan, the Lieutenant Governor in Council may, with respect to any portion or all of the excess, transfer it to the Province's General Revenue Fund, or apply it towards reduction of the contributions for which the Province is liable.

If the Registered Plan is terminated and the assets are not sufficient to pay all the benefits accrued under the terms of the Registered Plan, additional contributions are payable by the Province in amounts sufficient to ensure that all accrued benefits are paid. If, after all benefits are provided on the complete wind-up of the Registered Plan, assets remain in the plan, those assets shall be transferred to the General Revenue Fund of the Province.

The Unregistered Plan defines its capital as the funded status as described in Notes 1a, 1b, 1g and Note 6.

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo, and the Plan's actuary, and after consultation with the Judges' Pension Plan Advisory Committee.

SCHEDULE OF THE PROVINCIAL JUDGES AND MASTER IN CHAMBERS (REGISTERED) PENSION PLAN AND THE PROVINCIAL JUDGES AND MASTERS IN CHAMBERS (UNREGISTERED) PENSION PLAN

The following Schedule is provided for illustrative purposes only. The Provincial Judges and Masters in Chambers (Registered) Pension Plan and the Provincial Judges and Masters in Chambers (Unregistered) Pension Plan are independent entities and, as such, there is no right of offset of these individual liabilities and assets. Data is provided using fair value of assets (not actuarial or "smoothed" values), as presented in the respective financial statements.

	($ thousands)	
	March 31, 2017	March 31, 2016
Net assets available for benefits - Registered Plan	$ 147,042	$ 135,467
Net assets available for benefits - Unregistered Plan *	193,600	170,164
	340,642	305,631
Pension Obligation - Registered Plan	139,466	135,738
Pension Obligation - Unregistered Plan	209,263	192,975
	348,729	328,713
Deficiency of aggregate assets over aggregate accrued benefits	$ (8,087)	$ (23,082)

* Includes due from Reserve Fund for 2017 $189,715 (2016: $164,859)

PUBLIC SERVICE MANAGEMENT (CLOSED MEMBERSHIP) PENSION PLAN

Financial Statements

Year Ended December 31, 2016

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Independent Auditor's Report

AUDITOR GENERAL
Alberta

To the President of Treasury Board, Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Management (Closed Membership) Pension Plan, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Management (Closed Membership) Pension Plan as at December 31, 2016, and changes in its net assets available for benefits and changes in its pension obligation, for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2017

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2016

	($ thousands)	
	2016	**2015**
Net Assets Available for Benefits		
Assets		
Cash and cash equivalents (Note 5)	$ 7,862	$ 9,226
Accounts receivable	257	252
Total Assets	8,119	9,478
Liabilities		
Accounts payable	8	-
Total Liabilites	8	-
Net assets available for benefits	$ 8,111	$ 9,478
Pension obligation and deficit		
Pension obligation (Note 3)	$ 545,479	$ 570,596
Deficit (Note 4)	(537,368)	(561,118)
Pension obligation and deficit	$ 8,111	$ 9,478

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016

	($ thousands)	
	2016	**2015**
Increase in assets		
Contributions from the Province of Alberta	$ 49,500	$ 53,025
Investment income	90	95
	49,590	53,120
Decrease in net assets		
Benefit payments (Note 6)	50,642	52,498
Administration expenses (Note 7)	315	340
	50,957	52,838
(Decrease) increase in net assets	(1,367)	282
Net assets available for benefits at beginning of year	9,478	9,196
Net assets available for benefits at end of year	$ 8,111	$ 9,478

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2016

	($ thousands) 2016	2015
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 21,266	$ 22,687
Net increase (decrease) due to actuarial assumption changes (Note 3a)	4,259	(7,559)
	25,525	15,128
Decrease in pension obligation		
Benefits paid	50,642	52,498
Net experience gains (Note 3b)	-	2,662
	50,642	55,160
Net decrease in pension obligation	(25,117)	(40,032)
Pension obligation at beginning of year	570,596	610,628
Pension obligation at end of year (Note 3)	$ 545,479	$ 570,596

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2016

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Management (Closed Membership) Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a defined benefit pension plan for eligible retired management employees of the Province of Alberta and certain provincial agencies and public bodies. Members of the former Public Service Management Pension Plan who were retired or were entitled to receive deferred pensions or had attained 35 years of pensionable service before August 1, 1992 continue as members of this Plan. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 1006923. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Treasury Board and Finance is management of the Plan.

b) PLAN FUNDING

The Plan is funded by investment income and money appropriated to the Plan, if any, by the Legislative Assembly of the Province of Alberta.

The Plan's actuary performs an actuarial valuation of the Plan at least once every three years.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 2.0% for each year of pensionable service based on the average salary of the highest five consecutive years. The maximum service allowable under the Plan is 35 years.

Members are entitled to receive a pension if they terminated before August 1, 1992 and attained age 55 with at least five years of pensionable service. In addition, those members who had achieved 35 years of pensionable service at August 1, 1992 and subsequently terminated are also entitled to a pension.

d) COST-OF-LIVING ADJUSTMENTS

Pensions payable by the Plan are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

e) GUARANTEE

The Province of Alberta guarantees payment of all benefits arising under the Plan. After all assets in the Plan are exhausted, the Province of Alberta pays all benefits under the Plan.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) VALUATION OF CASH AND CASH EQUIVALENTS

Short-term securities included in cash and cash equivalents are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The Plan's cut-off policy for valuation of investments and investment income is based on valuations provided by AIMCo at the close of the 4th business day following the year end.

c) INVESTMENT TRANSACTIONS, INCOME RECOGNITION AND TRANSACTION COSTS

Investment income is accrued as earned. Gains or losses on investments are recognized concurrently with changes in fair value.

Transaction costs are incremental costs directly attributable to the acquisition or issue of a financial asset or liability. Transaction costs are expensed, and include fees and commissions paid to agents, advisors and brokers.

d) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

e) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's actuarial value of the pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation of the Plan's actuarial value of the pension obligation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as changes in actuarial assumptions and net experience gains or losses in the note describing changes in the pension obligation (see Note 3a).

f) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2014 by Aon Hewitt and was then extrapolated to December 31, 2016.

The actuarial assumptions used in determining the value of the pension obligation of $545,479 (2015: $570,596) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate and inflation rate.

The major assumptions used for accounting purposes were:

	2016	2015
	%	%
Inflation rate	2.00	2.00
Discount rate	3.80	3.90
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

An actuarial valuation of the Plan as at December 31, 2017 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2018.

b) NET EXPERIENCE GAINS

Net experience gains of $nil (2015: $2,662) reflect the results of the valuation as at December 31, 2014 extrapolated to December 31, 2016.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will inevitably differ, perhaps significantly, from these assumptions. Any differences between the actuarial assumptions and future experience will emerge as gains and losses in future valuations and will affect the financial position of the Plan.

NOTE 3 PENSION OBLIGATION CONTINUED

The following is a summary of the sensitivities of the Plan's deficiency to changes in assumptions used in the actuarial extrapolation as at December 31, 2016:

	($ thousands) Changes in Assumptions	Increase in Plan Deficiency
	%	$
Inflation rate increase holding the discount rate assumption constant	1.0	27,398
Discount rate decrease holding the inflation rate assumption constant	(1.0)	49,118

NOTE 4 DEFICIT

($ thousands)

	2016	2015
Deficit at beginning of year	$ (561,118)	$ (601,432)
(Decrease) increase in net assets available for benefits	(1,367)	282
Net decrease in pension obligation	25,117	40,032
Deficit at end of year	$ (537,368)	$ (561,118)

NOTE 5 CASH AND CASH EQUIVALENTS

Cash and cash equivalents consist primarily of deposits in the Consolidated Cash Investment Trust Fund. The Fund is managed with the objectives of providing competitive interest income to depositors while maintaining maximum security and liquidity of depositors' capital. The portfolio is comprised of short-term and mid-term fixed income securities with a maximum term to maturity of three years. As at December 31, 2016, securities held by the Fund have a time weighted rate of return of 0.9% per annum (2015: 0.9% per annum).

NOTE 6 BENEFIT PAYMENTS

($ thousands)

	2016	2015
Retirement benefits	$ 49,113	$ 50,908
Disability benefits	213	212
Termination benefits	24	17
Death benefits	1,292	1,361
	$ 50,642	$ 52,498

NOTE 7 ADMINISTRATION EXPENSES

	($ thousands) 2016	($ thousands) 2015
General administration costs	$ 276	$ 300
Investment management costs	14	15
Actuarial fees	25	25
	$ 315	$ 340

General administration costs were paid to Alberta Pensions Services Corporation on a cost-recovery basis. The Plan's share of the Corporation's operating and plan specific costs were based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

Investment management costs were paid to Alberta Investment Management Corporation and do not include custodial fees, which have been deducted in arriving at investment income.

Total administration expenses amounted to $171 (2015: $180) per member.

NOTE 8 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by Alberta Pensions Services Corporation and the Plan's actuary.

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PUBLIC SERVICE PENSION PLAN

Financial Statements

Year Ended December 31, 2016

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Independent Auditor's Report

To the President of Treasury Board and Minister of Finance
and the Public Service Pension Board of Trustees

Report on the Financial Statements

I have audited the accompanying financial statements of the Public Service Pension Plan, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Public Service Pension Plan as at December 31, 2016, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2017

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2016

	($ thousands) 2016	2015
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 11,888,002	$ 10,899,926
Contributions receivable		
Employers	13,321	12,857
Employees	13,414	12,874
Receivable for investment sales	-	5,039
Accounts receivable	12,330	12,779
Total Assets	11,927,067	10,943,475
Liabilities		
Accounts payable	15,066	1,238
Liabilities for investment purchases	1,342	5,039
Total Liabilities	16,408	6,277
Net assets available for benefits	$ 11,910,659	$ 10,937,198
Pension obligation and surplus or deficit		
Pension obligation (Note 5)	$ 11,607,684	$ 11,070,386
Surplus (deficit) (Note 6)	302,975	(133,188)
Pension obligation and surplus or deficit	$ 11,910,659	$ 10,937,198

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016

	($ thousands)	
	2016	**2015**
Increase in assets		
Contributions (Note 7)	$ 702,615	$ 697,713
Investment income (Note 8)	814,309	1,018,367
Transfers from other plans	6,415	11,591
	1,523,339	1,727,671
Decrease in assets		
Benefit payments (Note 10)	481,821	492,517
Transfers to other plans	10,311	18,485
Investment expenses (Note 11)	44,442	53,554
Administrative expenses (Note 12)	13,304	13,040
	549,878	577,596
Increase in net assets	973,461	1,150,075
Net assets available for benefits at beginning of year	10,937,198	9,787,123
Net assets available for benefits at end of year	$ 11,910,659	$ 10,937,198

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2016

	($ thousands) 2016	2015
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 663,275	$ 654,681
Benefits earned	460,504	448,898
Net experience losses (gains) (Note 5b)	54,474	(134,808)
	1,178,253	968,771
Decrease in pension obligation		
Benefits, transfers and interest	492,132	511,002
Net decrease (increase) due to actuarial assumption changes (Note 5a)	148,823	(22,195)
	640,955	488,807
Net increase in pension obligation	537,298	479,964
Pension obligation at beginning of year	11,070,386	10,590,422
Pension obligation at end of year (Note 5)	$11,607,684	$11,070,386

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2016

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Public Service Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and the *Public Service Pension Plan* Alberta Regulation 368/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for eligible employees of the Province of Alberta, approved provincial agencies and public bodies.

The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0208769. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Public Service Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan's assets and administration of the Plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Current service costs and the Plan's actuarial deficiency (see Note 14) are funded equally by employers and employees at contribution rates, which together with investment earnings, are expected to provide for all benefits payable under the Plan. The contribution rates in effect at December 31, 2016 are unchanged at 11.70% (2015 11.70%) of pensionable salary up to the Canada Pension Plan's Year's Maximum Pensionable Earnings (YMPE) and 16.72% (2015: 16.72%) of the excess for employees, with matching contributions by employers.

The contribution rates were reviewed by the Board in 2015 and are to be reviewed at least once every three years based on recommendations of the Plan's actuary.

c) RETIREMENT BENEFITS

The Plan provides a pension of 1.4% for each year of pensionable service based on average salary of the highest five consecutive years up to the YMPE over the same five consecutive year period and 2.0% on the excess, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. The maximum combined pensionable service allowable under the Plan is 35 years. Pensions are payable to vested members at retirement who have attained age 65, or have attained age 55 and the sum of their age and years of service equals 85. Reduced pensions are payable to members at age 55 or older retiring early with a minimum of two years of combined pensionable service.

d) DISABILITY BENEFITS

Unreduced pensions may be payable to members who become totally disabled and have at least two years of combined pensionable service. Reduced pensions may be payable to members who become partially disabled and have at least two years of combined pensionable service.

Individuals who became members after June 30, 2007 and had no combined pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Death benefits are payable on the death of a member prior to retirement. If the member has at least two years of combined pensionable service and a surviving pension partner, the surviving pension partner may choose to receive a survivor pension. For a beneficiary other than a pension partner or where combined pensionable service is less than two years, a lump sum payment must be chosen.

f) TERMINATION BENEFITS AND REFUNDS TO MEMBERS

Members who terminate with at least two years of combined pensionable service and who are not immediately entitled to a pension may receive the commuted value for all years of membership, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the commuted value, that excess is paid as a cash refund under the 50% excess rule. Alternatively, they may elect to receive a deferred pension which is also subject to the 50% excess rule. Members who terminate with less than two years of combined pensionable service receive a refund of their contributions and interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

g) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

The actuarial present value of pension entitlements is paid when service is transferred out of the Plan under a transfer agreement. The cost to recognize service transferred into the Plan under a transfer agreement is the actuarial present value of the benefits that will be created as a result of the transfer.

h) COST-OF-LIVING ADJUSTMENTS

Pensions payable are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

  i. Income distributions from the pools.

  ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland pools. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland pools may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statements of changes in pension obligation in the year when actual results are known.

Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note **4**).

($ thousands)

Asset class	Fair Value Hierarchy (a) Level 1	Level 2	Level 3	2016 Fair Value	2015 Fair Value
Fixed income					
Money market	$ -	$ 91,894	$ -	$ 91,894	$ 54,511
Bonds, mortgages and private debt	-	1,837,989	565,413	2,403,402	3,125,229
	-	1,929,883	565,413	2,495,296	3,179,740
Equities					
Canadian	1,526,730	137,378	13,354	1,677,462	1,215,477
Global developed	3,174,716	457,462	606,243	4,238,421	3,168,650
Emerging market	561,585	19,280	-	580,865	543,210
Private	-	-	331,683	331,683	353,609
	5,263,031	614,120	951,280	6,828,431	5,280,946
Alternatives					
Real estate	-	-	1,652,503	1,652,503	1,563,753
Infrastructure	-	-	649,482	649,482	636,678
Timberland	-	-	174,046	174,046	158,573
	-	-	2,476,031	2,476,031	2,359,004
Opportunistic and currency investments *	-	-	88,244	88,244	80,236
Total investments	$5,263,031	$ 2,544,003	$4,080,968	$11,888,002	$10,899,926

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $5,263,031 (2015: $3,676,825).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $2,544,003 (2015: $3,229,937). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $4,080,968 (2015: $3,993,164).

Reconciliation of Level 3 Fair Value Measurements

	($ thousands) 2016	($ thousands) 2015
Balance, beginning of year	$ 3,993,164	$ 3,065,228
Investment income *	202,523	458,310
Purchases of Level 3 pooled fund units	482,398	769,051
Sale of Level 3 pooled fund units	(597,117)	(299,425)
Balance, end of year	$ 4,080,968	$ 3,993,164

* Investment income includes unrealized gains and losses of ($114,858) (2015: $287,853).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Fixed Income:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods for private equities may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Alternatives:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value including replacement cost, direct comparison, direct capitalization of earnings and discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.
- ***Strategic and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.

- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following target policy asset mix:

Asset Class	Target Asset Policy Mix	Actual Asset Mix 2016		Actual Asset Mix 2015	
		($ thousands)	%	*($ thousands)*	%
Fixed income	11 - 33%	$ 2,495,296	21.0	$ 3,179,740	29.2
Equities	37 - 65%	6,828,431	57.5	5,280,946	48.5
Alternatives	15 - 30%	2,476,031	20.8	2,359,004	21.6
Opportunistic and currency investments	(a)	88,244	0.7	80,236	0.7
		$11,888,002	100.0	$10,899,926	100.0

(a) In accordance with the SIP&G, AIMCo may invest up to 3% of the fair value of the Plan's investments in opportunistic investments that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The following table summarizes the Plan's investment in debt securities by counterparty credit rating at December 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	80.7%	86.9%
Speculative Grade (BB+ or lower)	0.1%	0.0%
Unrated	19.2%	13.1%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2016, the Plan's share of securities loaned under this program is $1,156,519 (2015: $443,665) and collateral held totals $1,232,445 (2015: $471,921). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 39% (2015: 38%) of the Plan's investments, or $4,670,105 (2015: $4,099,507), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 21% (2015: 18%) and the Euro, 3% (2015: 4%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.9% of total investments (2015: 3.8%).

The following table summarizes the Plan's exposure to foreign currency investments held in the pools at December 31, 2016:

($ thousands)

	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$2,492,281	$ (249,228)	$1,985,810	$ (198,581)
Euro	413,037	(41,304)	400,006	(40,001)
Japanese yen	368,483	(36,848)	296,225	(29,622)
British pound	252,199	(25,220)	267,257	(26,726)
Hong Kong dollar	155,632	(15,563)	166,746	(16,675)
Swiss franc	135,735	(13,574)	108,587	(10,859)
Australian dollar	125,315	(12,532)	87,843	(8,784)
Other foreign currencies (below 1%)	727,423	(72,742)	787,033	(78,703)
Total foreign currency investments	$4,670,105	$ (467,011)	$4,099,507	$ (409,951)

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the fair value of investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 1.8% of total investments (2015: 3.0%).

d) Price Risk

Price risk relates to the possibility that pool units will change in fair value due to future fluctuations in market prices of equities held in the pools caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.0% of total investments (2015: 5.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. Units in pools that hold private investments like real estate, timberland, infrastructure and private equities are less easily converted to cash since the underlying securities are illiquid because they take more time to sell. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share *($ thousands)*	
By counterparty	Number of counterparties	2016	2015
Contracts in favourable position (current credit exposure)	45	$ 53,438	$ 41,475
Contracts in unfavourable position	11	(13,436)	(109,092)
Net fair value of derivative contracts	56	$ 40,002	$ (67,617)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $53,438 (2015: $41,475) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share	
	($ thousands)	
Types of derivatives used in pools	2016	2015
Structured equity replication derivatives	$ 32,867	$ (1,968)
Foreign currency derivatives	4,600	(50,926)
Interest rate derivatives	(1,389)	(17,384)
Credit risk derivatives	3,924	2,661
Net fair value of derivative contracts	$ 40,002	$ (67,617)

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2016 deposits in futures contracts margin accounts totalled $27,339 (2015: $28,987) and deposits as collateral for derivative contracts totalled $52 (2015: $3,483).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2014 by Aon Hewitt and results were then extrapolated to December 31, 2016 by George and Bell Consulting.

The actuarial assumptions used in determining the value of the pension obligation of $11,607,684 (2015: $11,070,386) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2016	2015
	%	
Discount rate	6.10	6.00
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2016. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

b) NET EXPERIENCE LOSSES

Net experience losses of $54,474 (2015: gains $134,808) reflect the results of the valuation as at December 31, 2014 extrapolated to December 31, 2016.

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2016:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	889,000	1.6
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	270,000	0.9
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	1,653,000	2.7

* The current service cost as a percentage of pensionable earnings is 16.7% at December 31, 2016

NOTE 6 SURPLUS (DEFICIT)

	2016 ($ thousands)	2015 ($ thousands)
Deficit at beginning of year	$ (133,188)	$ (803,299)
Increase in net assets available for benefits	973,461	1,150,075
Net increase in pension obligation	(537,298)	(479,964)
Surplus (deficit) at end of year	$ 302,975	$ (133,188)

NOTE 7 CONTRIBUTIONS

	2016 ($ thousands)	2015 ($ thousands)
Current service		
Employers	$ 347,860	$ 346,356
Employees	347,836	346,463
Past service		
Employers	2,223	1,403
Employees	4,696	3,491
	$ 702,615	$ 697,713

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	Income	Change in Fair Value	2016 Total	2015 Total
	($ thousands)			
Fixed income	$ 172,951	$ (71,730)	$ 101,221	$ 136,694
Equities				
Canadian	103,329	190,620	293,949	(95,472)
Foreign	277,273	(26,866)	250,407	649,293
Private	29,979	(4,259)	25,720	77,145
	410,581	159,495	570,076	630,966
Alternatives				
Real estate	82,295	3,496	85,791	107,609
Infrastructure	124,000	(63,469)	60,531	111,273
Timberland	(3,244)	20,077	16,833	12,119
	203,051	(39,896)	163,155	231,001
Opportunistic and currency investments	(5,874)	(14,269)	(20,143)	19,706
	$ 780,709	$ 33,600	$ 814,309	$ 1,018,367

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $124,494 and $(71,877) respectively (2015: $68,453 and $164,541 respectively).

NOTE 8 INVESTMENT IMCOME CONTINUED

Realized and unrealized gains and losses on currency hedges total ($21,376) and $2,359 respectively (2015: ($9,596) and $3,510 respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.6	8.0	12.5	12.6	9.2
Value added (lost) by AIMCo	0.3	1.8	(0.3)	1.5	2.2
Total return on investments [(a)]	**6.9**	**9.8**	**12.2**	**14.1**	**11.4**
Other sources [(b)]	2.0	2.0	2.1	3.1	1.2
Per cent change in net assets [(c)]	**8.9**	**11.8**	**14.3**	**17.2**	**12.6**
Per cent change in pension obligation [(c)]	**4.9**	**4.5**	**7.9**	**9.7**	**8.1**
Per cent of pension obligation supported by net assets	**103**	**99**	**92**	**87**	**82**

[(a)] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.8% (PBR: 9.7%), ten years is 6.0% (PBR: 5.7%) and 20 years is 7.1% (PBR: 6.8%). The Plan's actuary estimates the long-term net investment return on assets for funding purposes to be 6.05% (2015: 6.05%).

[(b)] Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

[(c)] The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2016	**2015**
Retirement benefits	$ 374,533	$ 353,809
Disability benefits	1,606	1,713
Termination benefits	78,995	104,102
Death benefits	26,687	32,893
	$ 481,821	$ 492,517

NOTE 11 INVESTMENT EXPENSES

	($ thousands) 2016	($ thousands) 2015
Amounts charged by AIMCo for:		
Investment costs [(a)]	$ 42,126	$ 40,348
Performance based fees [(a)]	577	11,910
GST	1,687	1,244
	44,390	53,502
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	52	52
Total investment expenses	$ 44,442	$ 53,554
(Decrease) increase in expenses [(a)]	(17.0%)	11.0%
Increase in average investments under management	10.2%	12.9%
Increase in value of investments attributed to AIMCo	0.3%	1.8%
Investment expense as a percent of:		
Dollar earned	5.5%	5.3%
Dollar invested	0.4%	0.5%
Investment expenses per member	$ 519	$ 646

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent (decrease) increase in investment costs and performance based fees is (18.3%) (2015: 18.9%).

NOTE 12 ADMINISTRATIVE EXPENSES

	($ thousands) 2016	($ thousands) 2015
General administration costs	$ 12,955	$ 12,446
Board costs	91	158
Actuarial fees	110	275
Other professional fees	148	161
	13,304	13,040
Member service expenses per member	$ 155	$ 157

General administration and the Board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of APS's operating and Plan specific costs was based on cost allocation policies approved by the President of Treasury Board and Minister of Finance.

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and administrative expenses per Note 12 are $57,746 (2015: $66,594) or $674 (2015: $804) per member and 0.49% (2015: 0.60%) of net assets under administration.

NOTE 14 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $11,346,000 at December 31, 2016 (2015: $10,087,000). In accordance with the *Public Sector Pension Plans Act*, the actuarial deficiency determined by the December 31, 2014 actuarial funding valuation is being funded by special payments shared equally between employees and employers in the following amounts:

1.39% of pensionable earnings until December 31, 2017, plus
0.16% of pensionable earnings until December 31, 2020, plus
3.76% of pensionable earnings until December 31, 2023, plus
0.26% of pensionable earnings until December 31, 2025, plus
2.40% of pensionable earnings until December 31, 2026

The special payments have been included in the rates shown in Note 1b.

NOTE 15 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 16 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

SPECIAL FORCES PENSION PLAN

Financial Statements

Year Ended December 31, 2016

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board and Minister of Finance
and the Special Forces Pension Board

Report on the Financial Statements

I have audited the accompanying financial statements of the Special Forces Pension Plan, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Special Forces Pension Plan as at December 31, 2016, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2017

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2016

	($ thousands)	
	2016	**2015**
Net Assets Available for Benefits		
Assets		
Investments (Note 3)	$ 2,687,940	$ 2,496,904
Contributions receivable		
Employers	2,658	2,684
Employees	2,829	2,500
Province of Alberta	661	576
Accounts receivable	1,295	1,102
Receivable for investment sales	2,500	2,844
Total Assets	2,697,883	2,506,610
Liabilities		
Accounts payable	3,673	543
Liability for investment purchases	3,307	2,844
Total Liabilities	6,980	3,387
Net assets available for benefits	$ 2,690,903	$ 2,503,223
Pension obligation and deficit		
Pension obligation (Note 5)	$ 2,799,428	$ 2,664,865
Deficit (Note 6)	(108,525)	(161,642)
Pension obligation and deficit	$ 2,690,903	$ 2,503,223

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016

($ thousands)

	2016			2015
	Plan Fund	**Indexing Fund**	**Total**	**Total**
Increase in assets				
Contributions (Note 7)	$ 128,760	$ 6,602	$ 135,362	$ 125,154
Investment income (Note 8)	179,601	5,988	185,589	227,649
COLA transfer increase (decrease) (Note 15)	650	(650)	-	-
	309,011	11,940	320,951	352,803
Decrease in assets				
Benefit payments (Note 10)	117,511	-	117,511	113,001
Investment expenses (Note 11)	13,422	409	13,831	15,226
Administrative expenses (Note 12)	1,929	-	1,929	2,327
	132,862	409	133,271	130,554
Increase in net assets	176,149	11,531	187,680	222,249
Net assets available for benefits at beginning of year	2,423,939	79,284	2,503,223	2,280,974
Net assets available for benefits at end of year	$ 2,600,088	$ 90,815	$ 2,690,903	$ 2,503,223

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2016

($ thousands)

	2016			2015
	Pre-1992	**Post-1991**	**Total**	**Total**
Increase in pension obligation				
Interest accrued on opening pension obligation	$ 48,679	$ 111,336	$ 160,015	$ 158,386
Benefits earned	-	94,545	94,545	84,179
Net increase due to actuarial assumptions changes (Note 5a)	-	-	-	65,486
	48,679	205,881	254,560	308,051
Decrease in pension obligation				
Benefits, transfers and interest	63,517	56,480	119,997	115,159
	63,517	56,480	119,997	115,159
Net increase in pension obligation	(14,838)	149,401	134,563	192,892
Pension obligation at beginning of year	825,077	1,839,788	2,664,865	2,471,973
Pension obligation at end of year (Note 5)	$ 810,239	$ 1,989,189	$ 2,799,428	$ 2,664,865

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

Year ended December 31, 2016

(All dollar amounts in thousands, except per member data and remuneration of board members)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Special Forces Pension Plan (the Plan) is a summary only. For a complete description of the Plan, reference should be made to the *Public Sector Pension Plans Act*, Revised Statutes of Alberta 2000, Chapter P-41, and *Special Forces Pension Plan* Alberta Regulation 369/93, as amended. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan is a contributory defined benefit pension plan for police officers employed by participating employers in Alberta. The Plan is a registered pension plan as defined in the *Income Tax Act*. The Plan's registration number is 0584375. The President of Treasury Board, Minister of Finance is the legal trustee for the Plan and Alberta Treasury Board and Finance is management of the Plan. The Plan is governed by the Special Forces Pension Board (the Board). The Board has certain statutory functions with respect to the Plan, including but not limited to, setting general policy guidelines on investment and management of the Plan's assets and administration of the plan, setting contribution rates, conducting actuarial valuations and recommending amendments to the Plan rules.

b) PLAN FUNDING

Plan Fund

Contributions and investment earnings are expected to fund all benefits payable under the Plan from the Plan Fund. The Board, in consultation with the Plan's actuary, reviews the contribution rates at least once every three years. The last actuarial valuation for funding purposes was prepared as at December 31, 2013.

The unfunded liability for service prior to December 31, 1991 is being financed by additional contributions from the Province of Alberta, employers and employees. Additional contributions are payable until December 31, 2036 unless the unfunded liability has been previously eliminated. The rates in effect at December 31, 2016 were 1.25% of pensionable salary for the Province of Alberta, and 0.75% each for employers and employees.

Employees and employers are responsible for fully funding service after 1991. The current service contribution rates for employers are 1.1% higher than the rates of employees. The contribution rates in effect at December 31, 2016 for current service and post-1991 actuarial deficiency were 13.05% of pensionable salary for employers and 11.95% for employees. Of this, contribution rates towards current service were 10.26% of pensionable salary for employers and 9.16% for employees. Contributions towards the post-1991 actuarial deficiency were 2.79% of pensionable salary each for both employers and employees.

The total contribution rates in effect at December 31, 2016 were 14.55% of pensionable salary for employers and 13.45% for employees and includes contributions towards COLA of 0.75% each (refer to the Indexing Fund below) and the pre-1992 unfunded liability of 0.75% each.

Indexing Fund

Benefit payment increases for post-1991 COLA (see Note 1i) are funded by contributions to another fund called the Indexing Fund from employers and employees and earnings from investments. The rates in effect at December 31, 2016 were 0.75% of pensionable salary each for employers and employees. COLA rates and benefits are set by the Board. Subject to the *Employment Pension Plans Act*, the Indexing Fund may receive surpluses of the Plan Fund respecting service after 1991.

c) RETIREMENT BENEFITS

The Plan provides for a pension of 1.4% for each year of pensionable service based on the average salary of the highest five consecutive years up to the average YMPE over the same five consecutive year period and 2.0% on the salary above YMPE, subject to the maximum pension benefit limit allowed under the *Income Tax Act*. For members who retire before age 65, the pension will include a bridge benefit. This bridge is provided up to age 65. The bridge benefit is 0.6% for each year of pensionable service based on the average of the highest five consecutive years up to the YMPE.

d) DISABILITY BENEFITS

Pensions may be payable to members who become totally disabled and retire early with at least five years of pensionable service. Reduced pensions may be payable to members who become partially disabled and retire early with at least five years of pensionable service. Individuals who became members after June 30, 2007 and had no pensionable service prior to July 1, 2007 are not entitled to disability benefits.

e) DEATH BENEFITS

Benefits are payable on the death of a member before retirement. If the member had at least five years of service and there is a pension partner or dependent minor child, benefits may take the form of a survivor pension, or a lump sum payment. If the member has less than five years of pensionable service, the pension partner or beneficiary is entitled to receive death benefits in the form of a lump sum payment, and with respect to pre-1992 service there are additional benefits for dependent minor children.

f) TERMINATION BENEFITS, REFUNDS AND TRANSFERS

Members who terminate with at least five years of pensionable service and who are not immediately entitled to a pension may receive a refund of their contributions and interest on service prior to 1992 and the commuted value of their pension for service after 1991, with the commuted value being subject to locking-in provisions. Any optional service purchased wholly by the member is not included in the commuted value and is paid as contributions with interest. If the remaining member contributions fund more than 50% of the benefit, that excess is paid as a cash refund. Alternatively, they may elect to receive a deferred pension. Members who terminate with less than five years of pensionable service receive a refund of contributions and interest. The refunds are accounted for as benefit payments on the statement of changes in net assets available for benefits.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

g) GUARANTEE

As long as there remains an unfunded liability for pre-1992 service, payment of all benefits arising from service before 1992 is guaranteed by the Province of Alberta. (Section 9.1(c) of the *Public Sector Pension Plans Act* Schedule 4).

h) OPTIONAL SERVICE AND TRANSFERS

All optional service purchases are to be cost-neutral to the Plan.

Reciprocal agreements provide that transferred-in service be on an actuarial reserve basis and transfers-out receive the greater of commuted value for all service, or all contributions made by the member to the Plan.

i) COST-OF-LIVING ADJUSTMENTS (COLA)

Pensions payable by the Plan Fund for pre-1992 service are increased each year on January 1st by an amount equal to 60% of the increase in the Alberta Consumer Price Index. The increase is based on the increase during the twelve-month period ending on October 31st in the previous year.

For post-1991 service, the Board is responsible for setting COLA based on funds available in the Indexing Fund (see Note 15). COLA at 60% has been granted on service up to December 31, 2000. Effective January 1, 2016, COLA at 30% (January 2015: 30%) of the Alberta Consumer Price Index was applied to the portion of Plan pensions in pay, and deferred pensions, relating to pensionable service after December 31, 2000.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and

Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of units held by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the year end. Differences in valuation estimates provided to Alberta Treasury Board and Finance after the year end cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

(a) Investment income is recorded on an accrual basis.

(b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 8 and includes the following items recorded in the Plan's accounts:

  i. Income distributions from the pools.

  ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 11). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in the financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments. Uncertainty arises because:

i) the Plan's actual experience may differ, perhaps significantly, from assumptions used in the extrapolation of the Plan's pension obligation, and

ii) the estimated fair values of the Plan's private investments, hedge funds, real estate and timberland investments may differ significantly from the values that would have been used had a ready market existed for these investments.

While best estimates have been used in the valuation of the Plan's pension obligation, private investments, hedge funds, real estate and timberland investments, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts.

Differences between actual results and expectations in the Plan's pension obligation are disclosed as assumption or other changes and net experience gains or losses in the statement of changes in pension obligation in the year when actual results are known. Differences between the estimated fair values and the amount ultimately realized for investments are included in net investment income in the year when the ultimate realizable values are known.

h) INCOME TAXES

The Plan is a registered pension plan, as defined by the *Income Tax Act* (Canada) and, accordingly, is not subject to income taxes.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Guidelines (SIP&G) approved by the Plan's board. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

($ thousands)

	Fair Value Hierarchy [(a)]			2016	2015
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 35,608	$ -	$ 35,608	$ 26,400
Bonds, mortgages and private debt and loans	-	541,889	85,771	627,660	582,707
	-	577,497	85,771	663,268	609,107
Equities					
Canadian	408,687	36,631	3,575	448,893	365,460
Global developed	366,282	89,262	293,539	749,083	740,203
Private	-	-	68,901	68,901	80,142
Emerging markets	101,924	3,499	-	105,423	99,797
Global small cap equity	87,218	-	-	87,218	77,326
	964,111	129,392	366,015	1,459,518	1,362,928
Inflation sensitive					
Real estate	-	-	257,390	257,390	249,207
Infrastructure	-	-	100,989	100,989	83,471
Real return bonds	-	125,795	-	125,795	113,953
Timberland	-	-	45,143	45,143	41,129
	-	125,795	403,522	529,317	487,760
Strategic, tactical and currency investments *	-	3,140	32,697	35,837	37,109
Total investments	$ 964,111	$ 835,824	$ 888,005	$ 2,687,940	$ 2,496,904

* This asset class is not listed separately in the SIP&G as it relates to strategic investments and currency overlays made on an opportunistic and discretionary basis (see Note 4).

a) **Fair Value Hierarchy:** The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $964,111 (2015: $873,457).

NOTE 3 INVESTMENTS CONTINUED

- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $835,824 (2015: $781,588). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $888,005 (2015: $841,859).

Reconciliation of Level 3 Fair Value Measurements:

	($ thousands) 2016	2015
Balance, beginning of year	$ 841,859	$ 661,412
Investment income *	46,816	109,756
Purchases of Level 3 pooled fund units	158,335	156,406
Sale of Level 3 pooled fund units	(159,005)	(85,715)
Balance, end of year	$ 888,005	$ 841,859

* Investment income includes unrealized (losses)/gains of $(23,079) (2015: $77,586)

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest-bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Private mortgages are valued based on the net present value of future cash flows. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market. Private debt and loans is valued similar to private mortgages.
- ***Equities:*** Public equities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. The fair value of hedge fund investments is estimated by external managers. The fair value of private equities is estimated by managers or general partners of private equity funds, pools and limited partnerships. Valuation methods may encompass a broad range of approaches. The cost approach is used to value companies without either profits or cash flows. Established private companies are valued using the fair market value approach reflecting conventional valuation methods including discounted cash flows and earnings multiple analysis.
- ***Inflation sensitive:*** The estimated fair value of private real estate investments is reported at the most recent appraised value, net of any liabilities against the real property. Real estate properties are appraised annually by qualified external real estate appraisers. Appraisers use a combination of methods to determine fair value

including replacement cost, direct comparison, direct capitalization of earnings and the discounted cash flows. The fair value of timberland investments is appraised annually by independent third party evaluators. Infrastructure investments are valued similar to private equity investments.

- ***Strategic, tactical and currency investments:*** The estimated fair value of infrastructure investments held in emerging market countries is estimated by managers or general partners of private equity funds and joint ventures. For tactical asset allocations, investments in derivative contracts provides overweight or underweight exposure to global equity and bond markets, including emerging markets. Currency investments consist of directly held currency forward and spot contracts.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of pooled investment funds (see Note 4f). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pooled investment funds created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Board. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Board manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency (see Note 4b).

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments. In order to earn the best possible return at an acceptable level of risk, the Board has established the following asset mix policy ranges:

Asset Class	Long-term Policy Weight	Actual Asset Mix 2016		Actual Asset Mix 2015	
		($ thousands)	%	*($ thousands)*	%
Interest-bearing securities					
Money market (cash and short-term securities)	1%	$ 35,608	1.3	$ 26,400	1.1
Fixed income (bonds and mortgages)	24%	627,660	23.4	582,707	23.3
Equities	50%	1,459,518	54.3	1,362,928	54.6
Inflation sensitive	25%	529,317	19.7	487,760	19.5
Strategic, tactical and currency	(a)	35,837	1.3	37,109	1.5
		$ 2,687,940	100.0	$ 2,496,904	100.0

a) In accordance with the SIP&G, AIMCo may invest up to 5% of the fair value of the Plan's investments in strategic opportunities that are outside of the asset classes listed above. AIMCo may, at its discretion, invest the funds in currency overlays.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes these debt securities by counterparty credit rating at December 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	90.3%	90.6%
Speculative Grade (BB+ or lower)	0.0%	0.0%
Unrated	9.7%	9.4%
	100.0%	100.0%

ii) Counterparty default risk - derivative contracts

The Plan's maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4f). The Plan can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded.

The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the Plan's net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2016, the Plan's share of securities loaned under this program is $309,651 (2015: $112,856) and collateral held totals $328,499 (2015: $119,748). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Foreign Currency Risk

The Plan is exposed to foreign currency risk associated with the underlying securities held in the pools that are denominated in currencies other than the Canadian dollar. Foreign currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fair values of investments denominated in foreign currencies are translated into Canadian dollars using the reporting date exchange rate. As a result, fluctuations in the relative value of the Canadian dollar against these foreign currencies can result in a positive or negative effect on the fair value of investments. Approximately 33.4% (2015: 39.8%) of the Plan's investments, or $898,695 (2015: $992,789), are denominated in currencies other than the Canadian dollar, with the largest foreign currency exposure being to the US dollar, 17.7% (2015: 20.0%) and the Euro, 3.3% (2015: 3.9%).

If the value of the Canadian dollar increased by 10% against all other currencies, and all other variables are held constant, the potential loss to the Plan would be approximately 3.3% (2015: 4.0%).

The following table summarizes the Plan's exposure to foreign currency investments held in pooled investment funds at December 31, 2016:

($ thousands)

	2016		2015	
Currency	**Fair Value**	**Sensitivity**	**Fair Value**	**Sensitivity**
U.S. dollar	$ 476,497	$ (47,650)	$ 499,657	$ (49,966)
Euro	88,558	(8,856)	96,630	(9,663)
Japanese yen	68,488	(6,849)	76,974	(7,697)
British pound	49,946	(4,995)	65,489	(6,549)
Other foreign currencies (below 1%)	215,206	(21,521)	254,039	(25,404)
Total foreign currency investments	$ 898,695	$ (89,870)	$ 992,789	$ (99,279)

NOTE 4 INVESTMENT RISK MANAGEMENT CONTINUED

c) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 3.3% (2015: 3.2%).

d) Price Risk

Price risk relates to the possibility that equity investments will change in value due to future fluctuations in market prices caused by factors specific to an individual equity investment or other factors affecting all equities traded in the market. The Plan is exposed to price risk associated with the underlying equity investments held in pools managed by AIMCo. If equity market indices (S&P/TSX, S&P500, S&P1500 and MSCI ACWI and their sectors) declined by 10%, and all other variables are held constant, the potential loss to the Plan would be approximately 6.4% (2015: 6.1%). Changes in fair value of investments are recognized in the statement of changes in net assets available for benefits.

e) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4f).

f) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

		Plan's Indirect Share ($ thousands)	
By counterparty	Number of counterparties	2016	2015
Contracts in favourable position (current credit exposure)	46	$ 15,156	$ 10,787
Contracts in unfavourable position	10	(4,855)	(24,937)
Net fair value of derivative contracts	56	$ 10,301	$ (14,150)

(i) Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $15,156 (2015: $10,787) were to default at once.

(ii) Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

(iii) Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

	Plan's Indirect Share	
	($ thousands)	
Types of derivatives used in pools	2016	2015
Structured equity replication derivatives	$ 6,717	$ (1,152)
Foreign currency derivatives	3,359	(10,603)
Interest rate derivatives	(653)	(3,036)
Credit risk derivatives	878	641
Net fair value of derivative contracts	$ 10,301	$ (14,150)

(i) Structured equity replication derivatives: Equity index swaps are structured to receive income from counterparties based on the performance of a specified market-based equity index, security or basket of equity securities applied to a notional amount in exchange for floating rate interest paid to the counterparty. Floating rate notes are held in equity pools to provide floating rate interest to support the pay leg of the equity index swap. Rights, warrants, futures and options are also included as structured equity replication derivatives.

(ii) Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

(iii) Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

(iv) Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

(v) Deposits: At December 31, 2016 deposits in futures contracts margin accounts totalled $6,311 (2015: $6,378) and deposits as collateral for derivative contracts totalled $737 (2015: $1,531).

NOTE 5 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2013 by Mercer (Canada) Limited and was then extrapolated to December 31, 2016.

The actuarial assumptions used in determining the value of the liability for accrued benefits of $2,799,428 (2015: $2,664,865) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate and salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

NOTE 5 PENSION OBLIGATION CONTINUED

The major assumptions used for accounting purposes were:

	2016	2015
	%	
Discount rate	5.90	5.90
Inflation rate	2.00	2.00
Salary escalation rate*	3.00	3.00
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

An actuarial valuation of the Plan as at December 31, 2016 will be carried out. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

b) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation and extrapolation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's deficiency and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2016:

	($ thousands)		
	Changes in Assumptions %	Increase in Plan Deficiency $	Increase in Current Service Cost as a % of Pensionable Earnings *
Inflation rate increase holding discount rate and salary escalation assumptions constant **	1.0	178,740	0.8
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	135,627	2.3
Discount rate decrease holding inflation rate and salary escalation assumptions constant	(1.0)	479,865	5.8

* The current service cost as a % of pensionable earnings as determined by the December 31, 2016 extrapolation is 20.63%.

** Contributions to the Indexing Fund are fixed and are not affected by assumed inflation.

NOTE 6 DEFICIT

In accordance with the requirements of the *Public Sector Pension Plans Act*, a separate accounting is required of the pension obligation and deficiency with respect to service that was recognized as pensionable as at December 31, 1991.

($ thousands)

	2016			2015
	Pre-1992	Post-1991	Total	Total
Deficit at beginning of year	$ (198,400)	$ 36,758	$ (161,642)	$ (190,999)
Increase in Plan Fund net assets available for benefits	(8,051)	184,200	176,149	211,809
Increase in Indexing Fund net assets	-	11,531	11,531	10,440
Net increase in pension obligation	14,838	(149,401)	(134,563)	(192,892)
Deficit at end of year	$ (191,613)	$ 83,088	$ (108,525)	$ (161,642)

($ thousands)

	2016			2015
	Pre-1992	Post-1991	Total	Total
Plan opening net assets available for benefits	$ 626,677	$ 1,876,546	$2,503,223	$2,280,974
Increase in Plan net assets available for benefits	(8,051)	195,731	187,680	222,249
Plan closing net assets available for benefits	$ 618,626	$ 2,072,277	$2,690,903	$2,503,223

This Plan deficiency is for accounting purposes and may differ from the Plan Fund deficiency for funding purposes (Note 16).

NOTE 7 CONTRIBUTIONS

($ thousands)

	2016	2015
Current service		
Employers	$ 50,393	$ 46,319
Employees	45,353	41,678
Unfunded liability		
Employers	16,222	14,953
Employees	16,222	14,953
Province of Alberta	5,728	5,280
Past service		
Employers	162	310
Employees	1,250	1,289
Transfers from other plans	32	372
	$ 135,362	$ 125,154

NOTE 8 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands)			
	Income	Change in Fair Value	2016 Total	2015 Total
Interest-bearing securities	$ 43,529	$ (26,335)	$ 17,194	$ 26,490
Equities				
Canadian	27,903	51,200	79,103	(28,469)
Foreign	71,221	(9,042)	62,179	168,403
Private	5,407	(3,365)	2,042	8,750
	104,531	38,793	143,324	148,684
Inflation Sensitive				
Real estate	15,445	(2,614)	12,831	20,998
Real return bonds	7,364	(3,188)	4,176	2,204
Infrastructure	22,122	(13,894)	8,228	17,958
Timberland	(841)	5,207	4,366	3,143
	44,090	(14,489)	29,601	44,303
Strategic, tactical and currency investments	(1,256)	(3,274)	(4,530)	8,172
	$ 190,894	$ (5,305)	$ 185,589	$ 227,649

The change in fair value includes realized and unrealized gains and losses on pool units and currency hedges. Realized and unrealized gains and losses on pool units total $10,303 and $(11,048) respectively (2015: $12,061 and $38,879 respectively). Realized and unrealized gains and losses on currency hedges total $(5,201) and $641 respectively (2015: $(8,400) and $1,664 respectively).

Income earned in pooled investment funds is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 9 INVESTMENT RETURNS, CHANGE IN NET ASSETS AND PENSION OBLIGATION

The following is a summary of investment returns (losses), and the annual change in net assets compared to the annual change in the pension obligation and the per cent of pension obligation supported by net assets:

	2016	2015	2014	2013	2012
			in per cent		
Increase (decrease) in net assets attributed to:					
Investment income					
Policy benchmark return on investments	6.8	7.1	12.2	13.3	9.3
Value added return (loss) by investment manager	-	2.2	(0.2)	1.2	2.3
Total return on investments [a]	**6.8**	**9.3**	**12.0**	**14.5**	**11.6**
Other sources [b]	0.7	0.4	0.6	1.3	1.3
Per cent change in net assets [c]	**7.5**	**9.7**	**12.6**	**15.8**	**12.9**
Per cent change in pension obligation [c]	**5.0**	**7.8**	**10.0**	**-**	**5.8**
Per cent of pension obligation supported by net assets	**96**	**94**	**92**	**90**	**78**

[a] All investment returns are provided by AIMCo and are net of investment expenses. The annualized total return and policy benchmark return (PBR) on investments over five years is 10.8% (PBR: 9.7%), ten years is 6.1% (PBR: 5.8%) and twenty years is 7.2% (PBR: 6.8%). The Plan's actuary estimates the long-term net investment returns on assets for funding purposes to be 6.1% (2015: 6.1%)

[b] Other sources includes employee and employer contributions and transfers from other plans, net of benefit payments, transfers to other plans and administration expenses.

[c] The percentage change in net assets and the pension obligation is based on the amounts reported on the statement of changes in net assets available for benefits and the statement of changes in pension obligation.

NOTE 10 BENEFIT PAYMENTS

	($ thousands)	
	2016	**2015**
Retirement benefits	$ 103,120	$ 99,769
Disability benefits	234	234
Termination benefits	12,157	11,986
Death benefits	2,000	1,012
	$ 117,511	$ 113,001

NOTE 11 INVESTMENT EXPENSES

	($ thousands)	
	2016	**2015**
Amount charged by AIMCo for:		
Investment costs [a]	$ 11,658	$ 10,729
Performance based fees [a]	1,555	4,080
GST	540	339
	13,753	15,148
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	78	78
Total investment expenses	$ 13,831	$ 15,226
(Decrease) increase in expenses [a]	(9.2%)	16.0%
Increase in average investments under management	8.6%	11.1%
Increase in value of investments attributed to AIMCo	0.0%	2.2%
Investment expense as a percent of:		
Dollar earned	7.5%	6.7%
Dollar invested	0.5%	0.6%
Investment expenses per member	$ 1,925	$ 2,177

NOTE 11 INVESTMENT EXPENSES CONTINUED

[a] Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent (decrease) increase in investment costs and performance based fees is (10.8%) (2015: 23.1%).

NOTE 12 ADMINISTRATIVE EXPENSES

General administration costs including Plan board costs were paid to Alberta Pensions Services Corporation (APS) on a cost-recovery basis.

The Plan's share of the APS's operating and plan specific costs was based on cost allocation policies approved by the President of Treasury Board, Minister of Finance.

	($ thousands)	
	2016	2015
General administration costs	$ 1,657	$ 1,611
Board costs	65	144
Actuarial fees	113	270
Other professional fees	94	302
	$ 1,929	$ 2,327
Member service expenses per member	$ 269	$ 333

NOTE 13 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 11 and member service expenses per Note 12 are $15,760 (2015: $17,553) or $2194 (2015: $2,510) per member and 0.59% (2015: 0.70%) of net assets under administration.

NOTE 14 REMUNERATION OF BOARD MEMBERS

Remuneration paid to or on behalf of the Board members, as approved by the Lieutenant Governor in Council, is as follows:

	Chair	Members
Remuneration rates effective April 1, 2009		
Up to 4 hours	$ 219	$ 164
4 to 8 hours	383	290
Over 8 hours	601	427

	2016	2015
The following amounts were paid:		
Remuneration		
Chair	$ 2,378	$ 19,760
Members	25,160	39,716
Travel, training and conference expenses		
Chair	323	4,882
Members	11,395	30,124

NOTE 15 TRANSFER FROM THE INDEXING FUND TO THE PLAN FUND

If the Board has set a COLA increase and the conditions have been met under the *Public Sector Pension Plans Act* (i.e. plan's actuary has certified that the indexing fund contains enough assets to cover the increase) the Minister shall, on the recommendation of the Board, transfer from the Indexing Fund to the Plan Fund the amount certified by the Plan's actuary to cover the cost-of-living increases for post-1991 service. For 2016 there was a transfer of $650 (2015: $2,200)

NOTE 16 CAPITAL

The Plan defines its capital as the funded status. In accordance with the *Public Sector Pension Plans Act*, the actuarial surplus or deficit is determined by an actuarial funding valuation performed, at a minimum, every three years. The objective is to ensure that the Plan is fully funded over the long term through the management of investments, contribution rates and benefits. Investments, the use of derivatives and leverage are based on an asset mix and risk policies and procedures that are designed to enable the Plan to meet or exceed its long-term funding requirement within an acceptable level of risk, consistent with the Plan's SIP&G approved by the Board.

The Plan's asset values are determined on the fair value basis for accounting purposes. However for funding valuation purposes, asset values are adjusted for fluctuations in fair values to moderate the effect of market volatility on the Plan's funded status. Actuarial asset values for funding valuation purposes amounted to $2,655,190 at December 31, 2016 (2015 $2,417,139), comprising of $609,369 (2015: $602,775) Pre-1992 and $2,045,821 (2015: $1,814,364) Post-1991.

In accordance with the *Public Sector Pension Plans Act*, the unfunded liability for post-1991 service as determined by actuarial funding valuation is financed by a special payment currently totalling 5.58% of pensionable salary shared equally between employees and employers (2.79% each) until December 31, 2023. The special payment is included in the rates in effect at December 31, 2016 (see Note 1b).

NOTE 17 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 18 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance, based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Board.

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SUPPLEMENTARY RETIREMENT PLAN FOR PUBLIC SERVICE MANAGERS

Financial Statements

Year Ended December 31, 2016

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Independent Auditor's Report

AUDITOR GENERAL *Alberta*

To the President of Treasury Board and Minister of Finance

Report on the Financial Statements

I have audited the accompanying financial statements of the Supplementary Retirement Plan for Public Service Managers, which comprise the statement of financial position as at December 31, 2016, and the statements of changes in net assets available for benefits and changes in pension obligation for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for pension plans, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements present fairly, in all material respects, the financial position of the Supplementary Retirement Plan for Public Service Managers as at December 31, 2016, and changes in its net assets available for benefits and changes in its pension obligation for the year then ended in accordance with Canadian accounting standards for pension plans.

[Original signed by Merwan N. Saher FCPA, FCA]

Auditor General

April 20, 2017

Edmonton, Alberta

Statement of Financial Position

As at December 31, 2016

	($ thousands) 2016	2015
Net assets available for benefits		
Assets		
Investments (Note 3)	$ 21,922	$ 21,659
Refundable income tax (Note 1f and Note 5)	35,371	33,398
Contributions receivable		
Employers	132	179
Employees	136	179
Other receivables	-	2
Due from Alberta Pensions Services Corporation	581	450
Due from SRP Reserve Fund (Note 6)	114,492	103,409
Total Assets	172,634	159,276
Liabilities		
Income tax payable	352	453
Other payables	-	3
Total Liabilities	352	456
Net assets available for benefits	172,282	158,820
Pension obligation and deficit		
Pension obligation (Note 7)	222,302	175,125
Deficit (Note 8)	(50,020)	(16,305)
Pension obligation and deficit	$ 172,282	$ 158,820

The accompanying notes are part of these financial statements.

Statement of Changes in Net Assets Available for Benefits

Year ended December 31, 2016

	($ thousands)	
	2016	2015
Increase in assets		
Contributions (Note 9)	$ 7,865	$ 10,306
Increase in SRP Reserve Fund (Note 6)	11,083	12,983
Investment income (Note 10)	711	864
	19,659	24,153
Decrease in assets		
Benefit payments (Note 11)	5,434	4,823
Transfers to the Reserve Fund	-	400
Investment expenses (Note 12)	60	53
Administrative expenses (Note 13)	703	622
	6,197	5,898
Increase in net assets	13,462	18,255
Net assets available for benefits at beginning of year	158,820	140,565
Net assets available for benefits at end of year	$ 172,282	$ 158,820

The accompanying notes are part of these financial statements.

Statement of Changes in Pension Obligation

Year ended December 31, 2016

	($ thousands)	
	2016	2015
Increase in pension obligation		
Interest accrued on opening pension obligation	$ 10,141	$ 7,539
Benefits earned	10,721	13,546
Net experience losses (Note 7b)	47,584	-
	68,446	21,085
Decrease in pension obligation		
Benefits paid	5,434	4,823
Net decrease (increase) due to actuarial assumption changes (Note 7a)	15,835	(1,095)
	21,269	3,728
Net increase in pension obligation	47,177	17,357
Pension obligation at beginning of year	175,125	157,768
Pension obligation at end of year (Note 7)	$ 222,302	$ 175,125

The accompanying notes are part of these financial statements.

Notes to the Financial Statements

December 31, 2016

(All dollar amounts in thousands, except per member data)

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN

The following description of the Supplementary Retirement Plan for Public Service Managers (the Plan) is a summary only. For a complete description of the Plan, reference should be made to sections 5, 7 and 98 of the *Financial Administration Act*, Chapter F-12, Revised Statutes of Alberta 2000 and the *Supplementary Retirement Plan - Retirement Compensation Arrangement Directive* (Treasury Board Directive 01/06). The President of Treasury Board, Minister of Finance has overall responsibility for the operations of the Plan and is responsible for investments. Alberta Treasury Board and Finance is management of the Plan. Unless otherwise stated, all terms that are not defined below have the meaning prescribed to them in the Plan. Should anything in Note 1 or the financial statements conflict with the legislation, the legislation shall apply.

a) GENERAL

The Plan was established on July 1, 1999 to provide additional pension benefits to certain public service managers of designated employers who participate in the Management Employees Pension Plan (MEPP) and whose annual salary exceeds the MEPP salary cap. The Plan is supplementary to the MEPP. Service under MEPP is used to determine eligibility for vesting and early retirement. A member's pension commencement date is the same under both Plans and the pension is payable in the same form. Members of MEPP who had attained 35 years of combined pensionable service cannot subsequently start participating in the Plan.

b) PLAN FUNDING

Current service costs are funded by employee and employer contributions which together with investment earnings and transfers from the SRP Reserve Fund (see Note 6) are expected to provide for all benefits payable under the Plan. The contribution rate for designated employers equals or exceeds the rate for eligible employees. The contribution rates in effect at December 31, 2016 were 12.80% (2015: 12.80%) of pensionable salary in excess of the maximum pensionable salary limit for eligible employees and designated employers.

An actuarial valuation of the Plan is required to be performed at least once every three years. The rates are to be reviewed periodically by the President of Treasury Board and Minister of Finance.

c) BENEFITS

The Plan provides a pension of 2.0% of pensionable earnings that are in excess of the MEPP salary cap for each year of pensionable service after July 1, 1999 in which the employer was a participating employer, based on the average salary of the highest five consecutive years.

Vested members are entitled to an unreduced pension on service if they have either attained age 60, or age 55 and the sum of their age and combined pensionable service equals 80. Pensions are reduced if the member is under age 60 and the 80 factor is not attained.

Disability, death, termination benefits and cost-of-living adjustments under this Plan usually follow those of the MEPP.

NOTE 1 SUMMARY DESCRIPTION OF THE PLAN CONTINUED

d) GUARANTEE

Designated employers guarantee payment of all benefits arising under the Plan. If assets held in the Plan are insufficient to pay for benefits as they become due, the amount due is payable by designated employers.

e) SURPLUS PLAN ASSETS

The Province of Alberta has the right to amend or discontinue the Plan in whole or in part at any time. Any assets remaining in the Plan after provision for benefits payable to or in respect of members on the complete wind-up of the Plan accrue to the Province of Alberta.

f) INCOME TAXES

The Plan is a *Retirement Compensation Arrangement* (RCA) as defined in the *Income Tax Act*. Refundable income tax is remitted on any cash contributions from eligible employees and designated employers and net investment income received at the rate of 50%. Refundable income tax is returned to the Plan at the same rate when pension benefit payments are made to Plan members and beneficiaries.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES AND REPORTING PRACTICES

a) BASIS OF PRESENTATION

These financial statements are prepared on the going concern basis in accordance with Canadian accounting standards for pension plans. The Plan has elected to apply International Financial Reporting Standards (IFRS) for accounting policies that do not relate to its investment portfolio or pension obligation. The statements provide information about the net assets available in the Plan to meet future benefit payments and are prepared to assist Plan members and others in reviewing the activities of the Plan for the year.

b) FUTURE CHANGES IN ACCOUNTING POLICY

In July 2014 the International Accounting Standard Board issued the accounting standard IFRS 9 – Financial Instruments (effective for annual periods beginning on or after January 1, 2018) to replace International Accounting Standard (IAS) 39 – Financial Instruments: Recognition and Measurement and establishes principles for the financial reporting of financial assets and financial liabilities that will present relevant and useful information to users of financial statements. Management is currently assessing the impact of this financial standard on the financial statements.

c) VALUATION OF INVESTMENTS

Investments are recorded at fair value. As disclosed in Note 3, the Plan's investments consist primarily of direct ownership in units of pooled investment funds ("the pools"). The pools are established by Ministerial Order 16/2014, being the Establishment and Maintenance of Pooled Funds, pursuant to the *Financial Administration Act* of Alberta, Chapter F-12, Section 45, and the *Alberta Investment Management Corporation Act* of Alberta, Chapter A-26.5, Section 15 and 20. Participants in pools include government and non-government funds and plans.

Contracts to buy and sell financial instruments in the pools are between the Province of Alberta and the third party to the contracts. Participants in the pools are not party to the contracts and have no control over the management of the pool and the selection of securities in the pool. Alberta Investment Management Corporation (AIMCo) controls the creation of the pools and the management and administration of the pools including security selection. Accordingly, the Plan does not report the financial instruments of the pools on its statement of financial position.

The Plan becomes exposed to the financial risks and rewards associated with the underlying financial instruments in a pool when it purchases units issued by the pools and loses its exposure to those financial risks and rewards when it sells its units. The Plan reports its share of the financial risks in Note 4.

The fair value of pool units held directly by the Plan is derived from the fair value of the underlying financial instruments held by the pools as determined by AIMCo (see Note 3b). Investments in pool units are recorded in the Plan's accounts. The underlying financial instruments are recorded in the accounts of the pools. The pools have a market-based unit value that is used to distribute income to the pool participants and to value purchases and sales of the pool units. The pools include various financial instruments such as bonds, equities, real estate, derivatives, investment receivables and payables and cash.

The Plan's cut-off policy for valuation of investments, investment income and investment performance is based on valuations confirmed by AIMCo on the fourth business day following the period end. Differences in valuation estimates provided to Treasury Board and Finance after the period cut-off date are reviewed by management. Differences considered immaterial by management are included in investment income in the following period.

Investments in units of the pools are managed and evaluated on a fair value basis. As such, all investments are designated and recorded in the financial statements at fair value.

Investments in pool units are recorded in the Plan's accounts on a trade date basis.

All purchases and sales of the pool units are in Canadian dollars.

Fair value is the amount of consideration agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act.

d) INVESTMENT INCOME

a) Investment income is recorded on an accrual basis.

b) Investment income is reported in the statement of changes in net assets available for benefits and in Note 10 and includes the following items recorded in the Plan's accounts:

  i. Income distributions from the pools.

  ii. Changes in fair value of units including realized gains and losses on disposal of units and unrealized gains and losses on units determined on an average cost basis.

e) INVESTMENT EXPENSES

Investment expenses include all amounts incurred by the Plan to earn investment income (see Note 12). Investment expenses are recorded on an accrual basis. Transaction costs are expensed as they are incurred.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES... CONTINUED

f) VALUATION OF PENSION OBLIGATION

The value of the pension obligation and changes therein during the year are based on an actuarial valuation prepared by an independent firm of actuaries. The valuation is made at least every three years and results from the most recent valuation are extrapolated, on an annual basis, to year-end. The valuation uses the projected benefit method pro-rated on service and management's best estimate, as at the valuation and extrapolation date, of various economic and non-economic assumptions.

g) MEASUREMENT UNCERTAINTY

In preparing these financial statements, estimates and assumptions are used in circumstances where the actual values are unknown. Uncertainty in the determination of the amount at which an item is recognized in financial statements is known as measurement uncertainty. Such uncertainty exists when there is a variance between the recognized amount and another reasonably possible amount, as there is whenever estimates are used.

Measurement uncertainty exists in the magnitude of the calculation of the Plan's pension obligation. Uncertainty arises because the Plan's actual experience may differ, perhaps significantly, from assumptions used in the calculation.

While best estimates have been used in the calculation, management considers that it is possible, based on existing knowledge, that changes in future conditions in the short term could require a material change in the recognized amounts. Differences between actual results and expectations are disclosed as actuarial assumption changes and net experience gains or losses in the note describing changes in the benefit obligation in the year when actual results are known.

NOTE 3 INVESTMENTS

The Plan's investments are managed at the asset class level for purposes of evaluating the Plan's risk exposure and investment performance against approved benchmarks based on fair value. AIMCo invests the Plan's assets in accordance with the Statement of Investment Policies and Goals (SIP&G) approved by the Plan's Advisory Committee. The fair value of the pool units is based on the Plan's share of the net asset value of the pooled fund. The pools have a market based unit value that is used to allocate income to participants of the pool and to value purchases and sales of pool units. AIMCo is delegated authority to independently purchase and sell securities in the pools and Plan, and units of the pools, within the ranges approved for each asset class (see Note 4).

	($ thousands)				
	Fair Value Hierarchy [(a)]			**2016**	**2015**
Asset class	Level 1	Level 2	Level 3	**Fair Value**	**Fair Value**
Interest-bearing securities					
Cash and short-term securities	$ -	$ 1,302	$ -	$ 1,302	$ 1,695
Bonds	-	20,620	-	20,620	19,111
Real return bonds	-	-	-	-	853
Total Investment	$ -	$ 21,922	$ -	$ 21,922	$ 21,659

a) Fair Value Hierarchy: The quality and reliability of information used to estimate the fair value of investments is classified according to the following fair value hierarchy with level 1 being the highest quality and reliability.

- ***Level 1*** - fair value is based on quoted prices in an active market. This level includes publicly traded listed equity investments totalling $nil (2015: $nil).
- ***Level 2*** - fair value is estimated using valuation techniques that make use of market-observable inputs other than quoted market prices. This level includes debt securities and derivative contracts not traded on a public exchange totalling $21,922 (2015: $21,659). For these investments, fair value is either derived from a number of prices that are provided by independent pricing sources or from pricing models that use observable market data such as swap curves and credit spreads.
- ***Level 3*** - fair value is estimated using inputs based on non-observable market data. This level includes private mortgages, hedge funds, private equities and inflation sensitive investments totalling $nil (2015: $nil).

b) Valuation of Financial Instruments recorded by AIMCo in the Pools

The methods used to determine the fair value of investments recorded in the pools is explained in the following paragraphs:

- ***Interest bearing securities:*** Public interest-bearing securities are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company. Cash flows are discounted using appropriate interest rate premiums over similar Government of Canada benchmark bonds trading in the market.
- ***Foreign currency:*** Foreign currency transactions in pools are translated into Canadian dollars using average rates of exchange. At year end, the fair value of investments in other assets and liabilities denominated in a foreign currency are translated at the year-end exchange rates.
- ***Derivative contracts:*** The carrying value of derivative contracts in a favourable and unfavourable position is recorded at fair value and is included in the fair value of the pools (see Note 4d). The estimated fair value of equity and bond index swaps is based on changes in the appropriate market-based index net of accrued floating rate interest. Interest rate swaps and cross-currency interest rate swaps are valued based on discounted cash flows using current market yields and exchange rates. Credit default swaps are valued based on discounted cash flows using current market yields and calculated default probabilities. Forward foreign exchange contracts and futures contracts are valued based on quoted market prices. Options to enter into interest rate swap contracts are valued based on discounted cash flows using current market yields and volatility parameters which measure changes in the underlying swap. Warrants and rights are valued at the year-end closing sale price or the average of the latest bid and ask prices quoted by an independent securities valuation company.

NOTE 4 INVESTMENT RISK MANAGEMENT

The Plan is exposed to financial risks associated with the underlying securities held in the pools created and managed by AIMCo. These financial risks include credit risk, market risk and liquidity risk. Credit risk relates to the possibility that a loss may occur from the failure of another party to perform according to the terms of a contract. Market risk is comprised of currency risk, interest rate risk and price risk. Liquidity risk is the risk the Plan will not be able to meet its obligations as they fall due.

The investment policies and procedures of the Plan are clearly outlined in the SIP&G approved by the Advisory Committee. The purpose of the SIP&G is to ensure the Plan is invested and managed in a prudent manner in accordance with current, accepted governance practices incorporating an appropriate level of risk. The Advisory Committee manages the Plan's return-risk trade-off through asset class diversification, target ranges on each asset class, diversification within each asset class, quality constraints on fixed income instruments and restrictions on amounts exposed to countries designated as emerging markets. Forward foreign exchange contracts may be used to manage currency exposure in connection with securities purchased in a foreign currency.

Actuarial liabilities of the Plan are primarily affected by the long-term real rate of return expected to be earned on investments, including assets held in the Supplementary Retirement Plan Reserve Fund (SRP Reserve Fund). In order to earn the best possible return at an acceptable level of risk, the Advisory Committee has established policy asset mix ranges of 25-45% fixed income instruments, 35-60% equities, and 12.5-30% alternative investments.

a) Credit Risk

i) Debt securities

The Plan is indirectly exposed to credit risk associated with the underlying debt securities held in the pools managed by AIMCo. Counterparty credit risk is the risk of loss arising from the failure of a counterparty to fully honour its financial obligations. The credit quality of financial assets is generally assessed by reference to external credit ratings. Credit risk can also lead to losses when issuers and debtors are downgraded by credit rating agencies usually leading to a fall in the fair value of the counterparty's obligations. Credit risk exposure for financial instruments is measured by the positive fair value of the contractual obligations with counterparties. The fair value of all investments reported in Note 3 is directly or indirectly impacted by credit risk to some degree. The majority of investments in debt securities are with counterparties with credit ratings considered to be investment grade.

The table below summarizes debt securities by counterparty credit rating at December 31, 2016:

Credit rating	2016	2015
Investment Grade (AAA to BBB-)	98.9%	99.8%
Speculative Grade (BB+ or lower)	0.1%	0.0%
Unrated	1.0%	0.2%
	100.0%	**100.0%**

ii) Counterparty default risk - derivative contracts

The Plan is exposed to counterparty credit risk associated with the derivative contracts held in the pools. The maximum credit risk in respect of derivative financial instruments is the fair value of all contracts with counterparties in a favourable position (see Note 4d). The pools can only transact with counterparties to derivative contracts with a credit rating of A+ or higher by at least two recognized ratings agencies. Provisions are in place to either transfer or terminate existing contracts when the counterparty has their credit rating downgraded. The exposure to credit risk on derivatives is reduced by entering into master netting agreements and collateral agreements with counterparties. To the extent that any unfavourable contracts with the counterparty are not settled, they reduce the net exposure in respect of favourable contracts with the same counterparty.

iii) Security lending risk

To generate additional income, the pools participate in a securities-lending program. Under this program, the custodian may lend investments held in the pools to eligible third parties for short periods. At December 31, 2016, the Plan's share of securities loaned under this program is $1,915 (2015: $714) and collateral held totals $1,986 (2015: $749). Securities borrowers are required to provide the collateral to assure the performance of redelivery obligations. Collateral may take the form of cash, other investments or a bank-issued letter of credit. All collateralization, by the borrower, must be in excess of 100% of investments loaned.

b) Interest Rate Risk

The Plan is exposed to interest rate risk associated with the underlying interest-bearing securities held in the pools managed by AIMCo. Interest rate risk relates to the possibility that the investments will change in value due to future fluctuations in market interest rates. In general, investment returns from bonds and mortgages are sensitive to changes in the level of interest rates, with longer term interest bearing securities being more sensitive to interest rate changes than shorter-term bonds. If interest rates increased by 1%, and all other variables are held constant, the potential loss in fair value to the Plan would be approximately 6.2% (2015: 6.4%).

c) Liquidity Risk

Liquidity risk is the risk that the Plan will encounter difficulty in meeting obligations associated with its financial liabilities. Liquidity requirements of the Plan are met through income generated from investments, employee and employer contributions, and by investing in units of pools that hold publicly traded liquid assets traded in an active market that are easily sold and converted to cash. These sources of cash are used to pay pension benefits and operating expenses, purchase new investments, settle derivative transactions with counterparties and margin calls on futures contracts. The Plan's future liabilities include the accrued pension benefits obligation and exposure to net payables to counterparties (Note 4d).

d) Use of Derivative Financial Instruments in Pooled Investment Funds

The Plan has indirect exposure to derivative financial instruments through its investment in units of the pools. AIMCo uses derivative financial instruments to cost effectively gain access to equity markets in the pools, manage asset exposure within the pools, enhance pool returns and manage interest rate risk, foreign currency risk and credit risk in the pools.

NOTE 4 INVESTMENT RISK MANAGEMENT

CONTINUED

By counterparty	Number of counterparties	Plan's Indirect Share ($ thousands) 2016		Plan's Indirect Share ($ thousands) 2015	
Contracts in favourable position (current credit exposure)	11	$	104	$	111
Contracts in unfavourable position	11		(111)		(375)
Net fair value of derivative contracts	22	$	(7)	$	(264)

[i] Current credit exposure: The current credit exposure is limited to the amount of loss that would occur if all counterparties to contracts in a favourable position totaling $104 (2015: $111) were to default at once.

[ii] Cash settlements: Receivables or payables with counterparties are usually settled in cash every three months.

[iii] Contract notional amounts: The fair value of receivables (receive leg) and payables (pay leg) and the exchange of cash flows with counterparties in pooled funds are based on a rate or price applied to a notional amount specified in the derivative contract. The notional amount itself is not invested, received or exchanged with the counterparty and is not indicative of the credit risk associated with the contract. Notional amounts are not assets or liabilities and do not change the asset mix reported in Note 3. Accordingly, there is no accounting policy for their recognition in the statement of financial position.

Types of derivatives used in pools	Plan's Indirect Share ($ thousands) 2016		Plan's Indirect Share ($ thousands) 2015	
Interest rate derivatives	$	(30)	$	(210)
Foreign currency derivatives		(6)		(76)
Credit risk derivatives		29		22
Net fair value of derivative contracts	$	(7)	$	(264)

[i] Interest rate derivatives: Interest rate derivatives exchange interest rate cash flows (fixed to floating or floating to fixed) based on a notional amount. Interest rate derivatives primarily include interest rate swaps and cross currency interest rate swaps, futures contracts and options.

[ii] Foreign currency derivatives: Foreign currency derivatives include contractual agreements to exchange specified currencies at an agreed upon exchange rate and on an agreed settlement date in the future.

[iii] Credit risk derivatives: Credit risk derivatives include credit default swaps allowing the pools to buy and sell protection on credit risk inherent in a bond. A premium is paid or received, based on a notional amount in exchange for a contingent payment should a defined credit event occur with respect to the underlying security.

[iv] Deposits: At December 31, 2016 deposits in futures contracts margin accounts totalled $17 (2015: $34) and deposits as collateral for derivative contracts totalled $1 (2015: $1).

NOTE 5 REFUNDABLE INCOME TAX

	($ thousands) 2016		($ thousands) 2015	
Refundable income tax at beginning of year	$	33,398	$	29,521
Tax on employees and employers contributions received		3,972		5,024
Tax on net investment income received plus adjustments of prior year taxes less tax refunds on benefits and refunds payments, net		(1,999)		(1,147)
Refundable income tax at end of year	$	35,371	$	33,398

NOTE 6 SUPPLEMENTARY RETIREMENT PLAN RESERVE FUND (SRP RESERVE FUND)

Designated employers guarantee payment of all benefits arising under the Plan (see Note 1d). To provide for their future obligations to the Plan, designated employers contribute to the SRP Reserve Fund at rates established by the President of Treasury Board and Minister of Finance. On April 1, 2015 the employer contribution rate increased from 2.46% to 9.9% of pensionable salary of eligible employees in excess of the *maximum pensionable salary limit* under the *Income Tax Act*.

The SRP Reserve Fund is a regulated fund established and administered by the President of Treasury Board and Minister of Finance to collect contributions from designated employers and to invest the funds, which are reserved to meet future benefit payments of the Plan.

As at December 31, 2016, the SRP Reserve Fund had net assets with fair value totalling $114,492 (2015: $103,409), comprising of $114,362 (2015: $103,255) in investments and $130 (2015: $154) in receivables. The increase during the year of $11,083 (2015: $12,983) is attributed to contributions from employers of $3,206 (2015: $3,075), investment gain of $7,877 (2015: $9,508) and transfer of funds from the Plan to the SRP Reserve Fund of $nil (2015 $400).

NOTE 7 PENSION OBLIGATION

a) ACTUARIAL VALUATION AND EXTRAPOLATION ASSUMPTIONS

An actuarial valuation of the Plan was carried out as at December 31, 2015 by Aon Hewitt and results were then extrapolated to December 31, 2016.

The actuarial assumptions used in determining the value of the pension obligation of $222,302 (2015: $175,125) reflect management's best estimate, as at the valuation and extrapolation date, of future economic events and involve both economic and non-economic assumptions. The non-economic assumptions include considerations such as mortality as well as withdrawal and retirement rates. The primary economic assumptions include the discount rate, inflation rate, and the salary escalation rate. The discount rate is based on the average from a consistent modeled investment return, net of investment expenses, and an additive for diversification and rebalancing. It does not assume a return for active management beyond the passive benchmark.

The major assumptions used for accounting purposes were:

	2016	2015
	%	
Discount rate on an after-tax basis	4.40	4.50
Inflation rate	2.00	2.00
Discount rate	5.90	6.00
Salary escalation rate *	3.00	3.00
Pension cost-of-living increase as a percentage of Alberta Consumer Price Index	60.0	60.0
Mortality rate	2014 Canadian Pension Mortality Table (Public Sector)	

* In addition to age specific merit and promotion increase assumptions.

NOTE 7 PENSION OBLIGATION CONTINUED

The next actuarial valuation of the Plan is expected to be completed as at December 31, 2016. Any differences between the actuarial valuation results and extrapolation results as reported in these financial statements will affect the financial position of the Plan and will be accounted for as gains or losses in 2017.

b) NET EXPERIENCE LOSSES

Net experience losses of $47,584 (2015: $nil) reflect the results of the valuation as at December 31, 2015 extrapolated to December 31, 2016

c) SENSITIVITY OF CHANGES IN MAJOR ASSUMPTIONS

The Plan's future experience will differ, perhaps significantly, from the assumptions used in the actuarial valuation. Any differences between the actuarial assumptions and future experience will emerge as gains or losses in future valuations and will affect the financial position of the Plan.

The following is a summary of the sensitivities of the Plan's net assets and current service cost to changes in assumptions used in the actuarial extrapolation at December 31, 2016:

	($ thousands)		
	Changes in Assumptions	Decrease in Net Assets	Increase in Benefits Earned
	%	$	$
Inflation rate increase holding discount rate and salary escalation assumptions constant	1.0	17,791	683
Salary escalation rate increase holding inflation rate and discount rate assumptions constant	1.0	33,919	4,760
Discount rate decrease holding inflation rate and salary escalation assumptions constant*	(1.0)	42,107	2,195

* Sensitivities includes investment return of assets held by the SRP Reserve Fund (Note 6).

NOTE 8 DEFICIT

	($ thousands)	
	2016	2015
Deficit at beginning of year	$ (16,305)	$ (17,203)
Increase in net assets available for benefits	13,462	18,255
Net increase in pension obligation	(47,177)	(17,357)
Deficit at end of year	$ (50,020)	$ (16,305)

NOTE 9 CONTRIBUTIONS

	($ thousands) 2016	2015
Employers	$ 3,878	$ 5,156
Employees	3,987	5,150
	$ 7,865	$ 10,306

NOTE 10 INVESTMENT INCOME

The following is a summary of the Plan's investment income (loss) by asset class:

	($ thousands) Income	Change in Fair Value	2016	2015 Total
Interest-bearing securities	$ 1,331	$ (620)	$ 711	$ 864

The change in fair value includes realized gains and losses from disposal of pool units totaling $57 (2015: $121) and unrealized gains and losses on units totaling $(677) (2015: $(187)).

Income earned in pools is distributed to the Plan daily based on the Plan's pro rata share of units issued by the pool. Income earned by the pools is determined on an accrual basis and includes interest, dividends, security lending income, realized gains and losses on sale of securities determined on an average cost basis, income and expense on derivative contracts and writedowns of securities held in pools which are indicative of a loss in value that is other than temporary.

NOTE 11 BENEFIT PAYMENTS

	($ thousands) 2016	2015
Retirement benefits	$ 4,673	$ 4,182
Termination benefits	718	549
Death benefits	43	92
	$ 5,434	$ 4,823

NOTE 12 INVESTMENT EXPENSES

	($ thousands) 2016	2015
Amount charged by AIMCo for:		
Investment costs [(a)]	$ 32	$ 27
GST	3	1
	35	28
Amounts charged by Treasury Board and Finance for:		
Investment accounting and Plan reporting	25	25
Total investment expenses	$ 60	$ 53
Increase in expenses	13.2%	1.9%
Increase in average investments under management	3.4%	6.5%
Investment expense as a percent of:		
Dollar earned	8.4%	6.1%
Dollar invested	0.3%	0.3%
Investment expenses per member	$ 26	$ 25

(a) Please refer to AIMCo's financial statements for a more detailed breakdown of the types of expenses incurred by AIMCo. Amounts recovered by AIMCo for investment costs include those costs that are primarily non-performance related including external management fees, external administration costs, employee salaries and incentive benefits and overhead costs. Amounts recovered by AIMCo for performance based fees relate to external managers hired by AIMCo.

The per cent increase in investment costs and performance based fees is 18.5% (2015: 12.5%).

NOTE 13 ADMINISTRATION EXPENSES

Administration expenses of $703 (2015: $622) were charged to the Plan on a cost recovery basis.

	($ thousands) 2016	2015
General administration costs	$ 655	$ 605
Actuarial fees	44	17
Other professional fees	4	-
	$ 703	$ 622
Member service expenses per member	$ 304	$ 296

The Plan's share of the Alberta Pensions Services Corporation's (APS) operating and plan specific costs was based on cost allocation formula approved by the President of Treasury Board and Minister of Finance.

NOTE 14 TOTAL PLAN EXPENSES

Total Plan expenses of investment expenses per Note 12 and administration expenses per Note 13 are $763 (2015: $675) or $330 (2015: $323) per member and 0.44% (2015: 0.43%) of net assets under administration.

NOTE 15 CAPITAL

The Plan defines its capital as the funded status as described in Notes 1b, 1e, Note 6 and Note 8.

NOTE 16 COMPARATIVE FIGURES

Comparative figures have been reclassified to be consistent with 2016 presentation.

NOTE 17 RESPONSIBILITY FOR FINANCIAL STATEMENTS

These financial statements were approved by the Deputy Minister of Treasury Board and Finance based on information provided by APS, AIMCo and the Plan's actuary, and after consultation with the Advisory Committee for the Supplementary Retirement Plan for Public Service Managers.